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MYRG - Q4 2017 MYR Group Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the MYR Group Fourth Quarter 2017 Conference Call. At this time, all participants are in a listen-only mode. (Operator Instructions) And as a reminder, this conference is being recorded.

Now I would like to welcome and turn the call to Ms. Kristine Walczak of Dresner Corporate Services. You may begin.

Kristine Walczak - *Dresner Corporate Services, Inc. - SVP of IR*

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 2017. Joining us on today's call are Rick Swartz, President and Chief Executive Officer; Betty Johnson, Senior Vice President, Chief Financial Officer and Treasurer; 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 this morning's press release, please contact Dresner Corporate Services at 312-726-3600 and we will send you a copy, or go to MYR Group's website, where a copy is available under the Investor Relations tab. Also, a replay of today's call will be available until Thursday, March 15, 2018, at 11:59 PM Eastern Time by dialing 855-859-2056 or 404-537-3406 and entering conference ID 1639329.

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 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 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, 2017, and in yesterday's press release. Certain non-GAAP financial information will be discussed on the call today. A reconciliation of this non-GAAP information to the most comparable GAAP measure is set forth in yesterday's press release.

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

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

Good morning, everyone. Welcome to our fourth quarter and full-year 2017 conference call to discuss financial and operational results. I'll begin our call today by providing a brief summary of the fourth quarter and full-year results, and then turn the call over to Betty Johnson, our Chief Financial Officer for a more detailed financial review. Following Betty's discussion, Tod Cooper and Jeff Waneka, our Chief Operating Officers for the -- our T&D and C&I segments will provide industry outlooks and discuss some of MYR Group's opportunities going forward. I will then conclude with some closing remarks and open the call up for your comments and questions.

Fourth quarter 2017 revenues came in strong at $373.5 million, while backlog remained solid at $679.1 million. Fourth quarter results continue to reflect the improved performance of some of our organic growth initiatives, as well as the substantial completion of 2 projects in the Midwest and 1 in Canada that negatively impacted our 2017 results.

In spite of the difficult start we had last year, 2017 revenue of $1.4 billion was a record high for the third consecutive year. Our backlog demonstrates that our business model is a sound platform for sustainable growth and that we are meeting the needs of our established customers by providing superior value and to new customers as we expand our service offerings to a larger geographical footprint. Both our T&D and C&I segments are beginning to benefit from the organic growth initiatives we've established over the past few years. We are establishing a strong reputation for quality, safety, and performance in new markets by adding service offerings and developing business opportunities that reach a broader base of clients. Our T&D segment has seen a strong project mix of all types and sizes and recent electric utility announcements regarding planned capital investments in 2018 and beyond provide evidence that our existing and prospective clients plan to continue to invest heavily in the power grid assets. And while the performance of our C&I segment has benefited from a healthy business climate in the majority of our markets, it is also due in large part to the willingness to identify and embrace external trends in order to refine our specialized expertise and meet the needs of our customers.

Placing our clients' best interest at the core of everything we do is what ultimately determines our success. As a result of consistently anticipating client needs and providing innovative solutions, we have further strengthened our relationships and continue to work -- win work with our long-term clients. We are proud of our accomplishments, but know there is always work -- more work to be done. We continue to look for process improvement opportunities to enhance our productivity, to fully understand our customers' needs, and to make investments to further solidify and extend our brand, offering, and customer base.

Now Betty will provide details on our fourth quarter and full-year 2017 financial results.

Betty R Johnson - *MYR Group Inc. - 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 2017 as compared to the fourth quarter of 2016. Our fourth quarter 2017 revenues were $373.5 million, matching our third quarter 2017 record high revenue. This represents a quarter-over-quarter increase of $29.8 million or 8.7%. The increase was primarily due to increased spending from existing C&I customers, our acquisition of WPE in late 2016 and an increase in distribution projects, partially offset by decline in transmission projects. T&D revenues were $227.9 million, a quarter-over-quarter decrease of 9.2%. The breakdown of T&D revenues were $146.6 million for transmission and $81.3 million for distribution. C&I revenues were $145.6 million, a quarter-over-quarter increase of 57%.

Our gross margin was 9.9% in the fourth quarter of 2017 compared to 12.2% in the same period last year. The decrease in gross margin was largely due to lower margins on certain projects, due to weather, lower productivity, and increased subcontractor costs, as well as project delays and schedule extensions. Margins were also negatively impacted from significant revenue on a large transmission project that had lower than average margins due to a high mix of material and subcontractor costs, which tend to have lower margins than we expect when utilizing our own labor and equipment. Changes in our estimates of gross profit on certain projects resulted in gross margin decrease of 190 basis points in the fourth quarter of 2017, compared to a decrease of 20 basis points for the fourth quarter of 2016.

SG&A expenses were $24 million, a $2.8 million decrease quarter-over-quarter. The decrease was primarily due to lower bonus and profit sharing costs, partially offset by quarter-over-quarter increases in costs associated with our expansion into new geographic markets and higher payroll costs to support operations. SG&A as a percentage of revenue decreased to 6.4% for the fourth quarter of 2017 from 7.8% in the fourth quarter of 2016.

Other expense was $2.5 million in the fourth quarter of 2017 compared to $1.2 million of other income in the fourth quarter of 2016. The increase in other expense was primarily due to year-over-year change in contingent consideration associated with the settlement of all amounts outstanding under the margin guarantee provision agreement with the prior owners of WPE. This settlement also eliminated any future contingent compensation consideration. We had an income tax benefit of $2.9 million in the fourth quarter of 2017 compared to a $8.1 million income tax provision for the same period last year. The fourth quarter income tax benefit was primarily due to the Tax Cuts and Jobs Act that resulted in the $7.8 million tax benefit or $0.47 per diluted share, primarily due to the revaluing of our net deferred tax liabilities to reflect the recently enacted 21% federal corporate tax rate. This income tax benefit was partially offset by our inability to utilize losses experienced in certain Canadian operations. Fourth quarter 2017 net income of $13.6 million or $0.82 per diluted share compared to $7.8 million or $0.48 per diluted share in the fourth quarter of 2016.

Total backlog at December 2017 was $679.1 million consisting of $333.1 million in the T&D segment and $346 million in the C&I segment. This represents a decrease of 3.2% from last quarter. The previously announced Denver Central 70 Project was not included in our fourth quarter backlog. We expect this project to be added to backlog in the first quarter of 2018.

Turning to the December 2017 balance sheet, we had approximately $5.3 million in cash; $79 million of funded debt; $150.1 million of availability under our credit facility. And working capital of $191.2 million. In summary, we continue our strong -- our trend of strong revenues matching last quarter's record high level. We believe that the fundamental business and markets in which we participate are strong, and should support improved profitability going forward into 2018. We also believe our strong balance sheet and borrowing capacity are sufficient to support our working capital needs, funding requirements, equipment investment and future growth.

I'll now turn the call over to Tod Cooper, who'll provide an overview and outlook 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. Throughout 2017, our transmission and distribution segment bid and executed work on a wide range of projects, specifically small to mid-size opportunities, engineer, procure construct or EPC work and renewable projects were consistently strong, while our distribution business experienced a healthy rate of growth. In the latter half of the year, large project bid opportunities began to surface, a trend we expect to continue into 2018 and beyond. Although, we had 3 projects that negatively impacted our financial results in 2017, our operational improvements and depth of resources put us in a favorable position in the second half of the year.

Looking forward, we believe industry activity demonstrates that many of our clients are continuing to invest in their grid systems and new infrastructure to ensure system reliability, economic efficiency and the integration of renewable and natural gas generation. While we bid a large number of transmission projects in 2017, some of which are still under evaluation, we can announce the award of 2 mid-sized projects in Virginia for Dominion Energy, the Cunningham-Dooms 500kV transmission line and the Surry-Skiffes Creek 500kV transmission line. We've noticed momentum in bidding a project award activity related to wind facilities and expect the next 2 years to present increased opportunities for renewable energy projects. We are well poised to pursue these projects as developers try to take advantage of the tax credits as the deadline approaches. We are encouraged by news on transmission spending, which included several announcements by regional grid operators in the fourth quarter.

PJM, the grid operator for much of the Mid-Atlantic U.S., announced that their board has authorized $1 billion in various electric transmission projects that will tackle efficiency issues, and further integration of renewable energy resources. Our clients who are members of PJM such as AEP, FirstEnergy and PSE&G will benefit from these projects, that should serve to upgrade the regional grid. In late 2017, MISO, the regional grid operator, for much of the Midwestern U.S., announced that their board approved a wide range of projects of various sizes as part of their 2017 Transmission Expansion Plan. Approval was granted for 353 transmission projects, representing an investment of $2.6 billion across the region. We have a large regional presence within the MISO footprint serving member clients such as AEP, Ameren, Duke, ITC, MidAmerican Energy, Westar and Xcel Energy. Long-term client CenterPoint Energy announced approval by the Regional Transmission Council of Texas to move forward with their Freeport Master Plan Project, which consist of 2 new sub-stations and the 345kV transmission line to increase the reliability of Houston's electrical grid.

This important project is included in CenterPoint's planned increase in capital spending from 2018 to 2022, which is expected to reach $8.3 billion, an 18% increase over the previous 5-year budget. MYR Group has a strong presence in Texas and with working on the CenterPoint system. Our distribution work also gained momentum throughout 2017 and we continue to see improving demand for our services throughout the U.S. investments in both our legacy and organic operations position us well to support our clients' needs in this market segment. We continue to develop and expand a number of long-term distribution alliances and performance partnerships with clients throughout the U.S.

In the fourth quarter, we extended our distribution alliance with National Grid in the Northeast for 2 years and signed a 5-year master service agreement with Oncor for distribution work in Texas. With continued strength in the U.S. economy and the nation's housing sector along with needed upgrades for integrating distributed generation and overall system hardening, we remain positive on the outlook for MYR's distribution business.

In summary, we believe the T&D market holds tremendous opportunity for us as we continue to invest in our market leadership position and expand and develop our customer base. We will continue to raise the bar by devoting our energy and resources to doing what it takes for a successful future at MYR Group.

I'll now turn the call over to Jeff Waneka, who will provide an overview and outlook of our commercial and industrial segment.

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

Thanks, Tod. Good morning, everyone. As we entered 2017, our C&I group was focused on 2 main priorities to generate growth in both revenue and margins. In our legacy locations, we leveraged long-term relationships to secure quality projects; in our organic growth locations, we created an outreach program to demonstrate to potential clients our strength in pre-construction services and our commitment to being a value-added partner. We believe these actions enhanced our ability to achieve strong backlog growth throughout the year.

In 2018, our business unit leaders remain focused on our growth plan, which we expect will produce a platform for continued expansion this year and beyond. The acquisitions we have made over the past few years have expanded our footprint and led to exciting new opportunities across the U.S. and in Canada. I'd like to highlight some of the recent awards and share some prospective opportunities we see in 2018.

Healthcare provided substantial opportunity throughout 2017, as we received new contracts on multiple hospital expansions, the largest being a 190,000 square foot new building for Children's Hospital in Broomfield, Colorado. This is in addition to 2 other hospital expansions underway in Colorado Springs, a 280,000 square foot expansion to Children's Hospital and a 194,000 square foot expansion to St. Francis Hospital. We will also soon break ground on a new 280,000 square foot ambulatory care facility in downtown Denver. Healthcare facilities are some of the most complex buildings to construct and owners of these facilities understand the importance of selecting contractors with a specially trained work force. Due to our proven healthcare performance we are busy assisting clients with their budgeting needs for awards planned for 2018. Our transportation group experienced significant growth in 2017. And early in the year, our confidence in this market was reinforced as voters approved more than $200 billion of long-term infrastructure investment mostly along the West Coast. In addition to backlog captured in 2017, we are in the final negotiations for the award of Colorado's largest transportation project, the $1.2 billion Central 70 expansion of which our contract is in excess of $100 million. When added to our backlog, this contract will push our C&I backlog to record levels. As we move through 2018 we will continue to add resource depth, educate our workforce on the latest technologies and expand our relationships, all of which will position us well as the Federal Government works toward a long overdue infrastructure spending bills. Notable sources are reporting increases in all phases of construction spending. The December Dodge index was up from November's reading, according to Dodge's Chief Economist, the industry is in the midst of a modest mature phase of expansion, a trend that should continue through 2018. In the manufacturing sector, we recently started construction on the Gateway Center a large satellite manufacturing facility for Lockheed Martin Corporation. Other MYR awards include a pharmaceutical facility for Agilent and a large expansion for a well-known semiconductor client in Arizona.

In the food and beverage industry we received awards for our food processing plant in Colorado and new brewing facilities in Vancouver, British Columbia. And finally, data centers throughout Western U.S. are in a state of rapid growth and expansion and we anticipate contracts will be awarded shortly on projects that have been in the development stage for the last few months. In order to capture our share of new opportunities, we will continue to stay abreast of new technologies, master our skills and refine our expertise in order to solidify our reputation as one of the few contractors with the capabilities necessary for these highly complex projects. Looking ahead, we expect strong growth to continue in both our new and established markets and know that our core competencies in healthcare, transportation, data centers, commercial, industrial, aviation and manufacturing will position us well for future project awards.

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

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

Thank you for those updates Betty, Tod and Jeff. Our improved fourth quarter performance indicates that the actions we have taken are strengthening MYR Group's position as an industry leader and are helping us capture viable growth opportunities. In this healthy and active business climate, we believe our experience and reputation enable us to successfully execute all types and sizes of projects, compete effectively against existing and new competitors and most importantly serve the needs of our clients. We strive for continuous improvements of operational efficiencies to identify, recruit and develop top talent, ensure growth opportunities for all employees, perform work safely and responsibly and to be relentless in our understanding of our customers and meeting their needs. This past year's accomplishments are the combination of the efforts of our talented, smart, hardworking group and I take great pride in being part of this team. I'd like to close by extending a thank you to each and every customer for allowing us to serve you to our stockholders for your support and to MYR Group employees everywhere for your hard work, your ingenuity and your passion. To conclude on behalf of Betty, Tod, Jeff and myself, I sincerely thank you for joining us on the call today and I look forward to updating you on future calls.

Operator, we are now ready to open the call up for comments and questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from the line of Justin Hauke with Robert W Baird.

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

Thanks for taking my call here. I guess I wanted to ask a little bit about the gross margin adjustment, the 1.9 percentage point adjustment. Were those charges on the same problem projects that had impacted earlier in the year or were these new projects, I guess is the first part of that question.

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

Part of them were related to the projects that were, we identified in the first half of the year, that was probably a smaller percentage, may be that 20%, 25% range and then it's kind of split between our C&I and T&D, which --

with 1/3 of that being in our C&I component and 2/3 of that being in our Transmission & Distribution segment.

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

Okay. And then since those are new projects what's the percentage of completion on those? I mean is this going to be something that's going to be a lingering drag in the margins or are these mostly done projects?

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

For the most part they are substantially complete projects, some of them do have pending changes in whether it's change orders or claims that we're going after. So hopefully that offsets a part of that loss in the future, but again we evaluate that on a monthly basis, on a quarterly basis and really try to assess our likelihood of collecting additional money on those jobs.

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

Okay. I guess my second question is just kind of a broader capital allocation question. I'm going to ask it with a couple of parts. So first of all with tax reform what's the new tax rate you're assuming for 2018, and then with the incremental cash flow that you will, I would assume, get from that lower rate, how are you thinking about CapEx next year versus the buyback and do you want to maintain leverage at kind of this 1x rate that you are?

Betty R Johnson - *MYR Group Inc. - CFO*

So for the tax rate going forward that 14% reduction in the rate overall, we should benefit from that offset by some of the -- we do have some deductions that go away. So we're going to benefit somewhere in that 10% to 12% range from our, from the normal statutory rate. As it relates to the cash that's freed up from the tax reform, I mean, overall, as you know MYR Group has got a very strong balance sheet and strong liquidity. When it comes to our capital spend we have not been limited on that capital spend. So we don't anticipate change from our philosophy just because of the tax reform. Obviously it's going to give us a nice benefit with 100% deduction and free up some cash flow. As it relates to our 3-pronged strategy we've always been able to invest in our acquisitions, organic growth and return to shareholders and don't expect much of a revision to that. I don't know if Rick you have any other thing to just add or...

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

We constantly look at our CapEx spend. If some of these large projects come to be in 2018, we'll adjust our capital spend and spend accordingly. But we're -- we watch it and we're pretty careful with how we spend our money.

Betty R Johnson - *MYR Group Inc. - CFO*

Yes. And when it comes to debt leverage we expect that to be right at -- the level that we're at today is a comfortable level and any free cash flow might reduce the debt, but we'll also be using the cash for any acquisitions or investments part of our strategy.

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

Okay. I'll jump back in maybe a little later but thank you for those.

Operator

Our next question comes from the line of Tahira Afzal with KeyBanc.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

I guess my first question is if you're looking at your aviation business in particular, the work I've done shows that that's a pretty long cycle maybe going up to 2023 even. Can you talk a bit more about what you're seeing there? Are there opportunities for you to gain market share there or should we assume this is growing in line with the market?

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

Yes, we see the same projections that you do that there is quite a lot of activity. We have a few of our regions are very strong in aviation and positioned very well and we're working to spread that into other markets where we see those opportunities do exist. It's very specialized work. So it's not something that every contractor can chase but at the same time we have to figure out how to move the resources to those other areas and be positioned well to capitalize on that opportunity.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Got it. Again if you look at the C&I business as a whole, you said you continue to see strong growth. How would you frame strong growth for us, I mean, organically, can you grow this business in the high single-digit fairly comfortable this year and the next year?

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

It's regional again. It really depends on the market and our position in that market, there are some where we believe that, that growth is going to continue at a rapid pace and others that there are some limiting factors, obviously, to our ability to grow at that pace. But I guess the good news is that we're in the right markets, where we're seeing the opportunities there. It's now our ability to build those relationships and those teams to be able to capture that work and execute it.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

And I guess last question and it's really regarding the margins, obviously, the fourth quarter were really okayish, showed your underlying earnings power, should we look at that gross margin of 7.5% or so really as a low-end book end at this point given the amount of bookings you are seeing in both your businesses? Or should we be taking some mix, procurement dilution into account as well?

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

I think if you look at that value, we're always trying, I mean, it really depends what the market does [out about]. It varies from a geographic area to geographic area as we capture work. Some markets are a little tighter, some competition takes work cheaper than we're willing to take it. So when we look at that [trail], we try to get every penny we can out of the opportunities out there but that range that's there right now, I would say, hopefully we can better that. But I'd use that going as a benchmark.

Operator

Our next question is from the line of Alex Rygiel with FBR.

Alexander John Rygiel - *B. Riley FBR, Inc., Research Division - Analyst*

Rick or Tod, kind of follows up, I wanted to hear those questions but in the opening remarks, you referenced the T&D sector as having strong project mix, could you explain whether that was associated with your backlog today or your bid pipeline and how do you define a strong project?

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

I think it's a combination of all of that. It's what we're seeing from a bidding activity, it's what we're hearing and seeing from experts in the industry, and just from talking to our utility clients. I define a strong mix as seeing a healthy T&D market coupled with a healthy distribution market and substation work as well. And that's what we're seeing in many of our areas, while there's still a few that are lagging in the distribution segment. We are continuing to see opportunities increase as they spread across the country. But in the past, where we've seen maybe growth in 1 region or seeing a more consistent market throughout the U.S. at this point in time.

Alexander John Rygiel - *B. Riley FBR, Inc., Research Division - Analyst*

And then coming back to the 1.9% gross margin impact from a number of different items, weather productivity, subcontractor cost and so on. Can you give us a few examples of some of the actions that have been taken to lessen these risks in the future?

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

Sure. Every project we finish, we do a complete lessons learned on it, we look at the issues that happen, sometimes whether it was weather productivity or new workforce or that type and we take that into our next estimates, including contractual language and try to get that changed where we can. There is an inherent risk with the business we do. You are not going to get all those factors covered in the future. So you try to put your best assessment. I've always said you can't take your worst example and bid your next project off of it, you'll never get any work. So we try to use a balanced approach of what we've learned from it, try to find different ways to manage our work, train our work force, do things to make us more productive. But at any given time, we've got thousands of jobs out there and there can be issues on a couple jobs and depending where that happens in the job cycle, whether it's the beginning or the end or how severe it is when you're up to the close out of a job, it can affect you as far as how we have to report it financially and we look at jobs every -- our people track it daily, we look at it from our standpoint every week, every month, every quarter and we really try to make sure that we identify the problems early and solve them, but we're not always able to.

Alexander John Rygiel - *B. Riley FBR, Inc., Research Division - Analyst*

And lastly, are the Dominion jobs in backlog?

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

Yes.

Operator

Our next question comes from the line of John Braatz with Kansas Capital.

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

Rick, looking at your 10-K last night, pre-tax losses in Canada were about $9 million. Can you talk a little bit about the outlook in Canada? Were those losses more project specific in the sense that there might have been execution issues, and are those projects finished? How does the outlook for Canada look in terms of reversing that loss?

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

I think the outlook long term is good and let me add a little color to kind of what's happened during the quarter. Part of it was the WPE, we have identified that as a settlement. It was some legacy work that they had on their books when we bought them, we felt that was in as we went through the final negotiations of these projects with them and the owners, we felt that it was best to modify our purchase agreement with them in the end. So it took out future consideration for earn out, things like that, in the future and we made the adjustment on our books on that project -- with that company to reflect that within our purchase agreement. I think long term, it's beneficial to us to have that settled and behind us and now we can focus on growing and managing that business. When we look at the overall market in Canada in the area they perform in, on the C&I component primarily and a little bit of the substation market they serve, it's a strong market. So we see a lot of opportunity, it slowed down for a while, prior to us buying them but we knew long term it was the right investment to make and we still feel that way and we feel we have a good team in place up there. It doesn't mean that everything's perfect up there but it's like any other project or any other company. We manage it project by project and work with them to enhance the overall performance. And then the other one was the project in Canada, where we have the pending claim and we continue to negotiate that and work through that with the client, hopefully we reach settlement on that during 2018. But overall, positive on the Canadian market.

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

And then, Jeff, if I could ask you a question on the data center business, a lot of talk these days about hyper-scale data centers. How involved are you in that regard? And how does that -- development of hyper-scale data centers change the way you might be doing business in the data center industry?

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

Yes, data centers are kind of in a constant state of evolution and clearly, we're dealing with clients who are studying a number of different sizes and scale of data centers. We think we're positioned well to be able to capitalize on that work. However, the data centers adapt great client relationships and so we're kind of out front looking at that business and making sure we're prepared for whichever direction it goes.

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

How much sizable is a hyper-scale data center in terms of project work maybe for you versus the traditional, if there is such a thing as traditional, data center?

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

Yes, gosh, I don't know if I can put that into words.

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

Yes, as we go through that -- I'll handle it. But I think every data center is unique based on the customers' need, we've got some that are small, some are additions to existing ones, we've got some new constructions and we've got clients that we continue to budget, and they all have various sizes and demands of what their data center does. So really there is not one size [to talk].

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

Rick, I'd like to add in there, we're also seeing because of the potential of the autonomous [trading] vehicle, small data centers spread all over the place versus maybe some clients who want super-large data center. So there's such a mix out there that we see coming.

Operator

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

Noelle C. Dilts - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

So I wanted to ask about tax reform in sort of a different way, how are you thinking about the impact of tax reform and bonus and depreciation -- bonus depreciation on your customer base? So we've heard some commentary that it actually could increase capital expenditures out of the utilities, but then we did have AEP talking about, reducing 2020 CapEx a little bit. So just curious how you are thinking about that from a high-level perspective?

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

Yes, I think, the tax reform for our clients is a little additive to them, but it doesn't change the fundamental reasons that the utility is spending money, or any given utility is spending money. Basically, reliability, aging infrastructure change of where the load is and none of that change --

changes. And on the C&I component I don't see it as a major driver, it's additive to it, but the need to upgrade hospitals, to build new data centers, --

again people are taking advantage of this and maybe spending a little more, but I don't see it as moving the needle completely. I think it's still based on the needs for these new projects and whether it's on the utility side or the C&I side.

Noelle C. Dilts - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

Okay that makes sense. And then just with the proposed steel and aluminum tariffs, what are -- how are you currently thinking about the impact from those proposals?

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

I think that's one of those -- those wait and see. I mean the cost component for the work we do, it will be affected by it. The clients will have to absorb that cost. But again it's something that that I don't see it as stopping any work that needs to be done. Again, these projects need to be done, there is reliability issues, there is aging infrastructure, I don't see that these new tariffs affecting that greatly at this point.

Noelle C. Dilts - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP and Analyst*

That makes lot of sense.

Operator

(Operator Instructions) And we have a follow-up from Tahira Afzal with KeyBanc.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Sorry to hit you with a similar question as what I posed before. But you said we should continue to use the original bookings for your gross margin on an aggregate basis. But I just wanted to be clear on what the bookings were. Your gross margin has been as high as 14% and we're kind of close to the bottom of that end range right now. So would love any kind of color you could provide on that, so I'm not modeling something that's too crazy out there.

Betty R Johnson - *MYR Group Inc. - CFO*

Can you first clarify, because when you are talking up 7.5% earlier, I was thinking of operating margin. Right now you are talking about gross margin.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Yes, I was actually -- that was about -- yes, so that was about the operating margin for T&D at that point, where we've seen obviously a lot more volatility, Betty. So anything to clarify, so I'm not building 12% margins from T&D and maybe perhaps the easier way to frame it is where your aggregate gross margins and perhaps moving your operating margins.

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

And again, Tahira, we don't give guidance, but if you really go back what I can tell you is, our backlog as far as percentages that we've carried T&D and where I see those margins come in over time haven't really changed. If you carve out kind of 2011-'12 time frame and then average it from there, and look at our average margins those pending some of the operational issues we've had, those bookings remain good that you've probably used in the past within your models. That's probably about as much as I can give. I've not seen a big increase in margins nor am I seeing a decrease, so I'm seeing that average margin on both our C&I and T&D side remain about the same as where it's been as a historical average.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

I mean, that will put you at probably the trough, right, on the T&D side from what you are saying and with fairly considerable upside if you're right and you are seeing another secular cycle?

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

And then it comes down to the execution issues and things where you'd pick up additional projects from the weather impact [action] things like that. So you've got the history with our company. We try to give the puts and takes every quarter and that's how we -- that's how the information we provide, so I'd use that.

Betty R Johnson - *MYR Group Inc. - CFO*

Yes, keep in mind the significant uptake just as long as you are keeping -- taking out those 14% margins from back in 2014.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

But, why would I do that, I guess? Why would -- I mean it seems like the cycle potentially died into those levels, not that I should be building those, but is that -- is there a slight chance we could see there again?

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

I mean, we hope to see that again, but again that was favorable closeouts. I mean, some of that going back in that time was favorable closeout on some projects. [Things have] benefited us and as we said the long -- the large projects, though we see a lot of activity there, we're still not seeing the trend where they're being released today. So I think you hear that from every one of our competitors. Very positive out there. We're doing a lot of budgeting where we're doing it, but those projects are not being released today. But there is a need, they're going to build them. It's just -- it's not -- it's not if they build them, it's when they build them.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Got it. This is very helpful.

Operator

Thank you. And ladies and gentlemen, this concludes our Q&A session for today. I will like to turn the call back to Rick Swartz for his final remarks.

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

Thank you everyone for participating on today's call. Again, I would like to thank our strong management team and employees for their hard work, and our stockholders for their continued support. I don't have anything further. We look forward to working with all of you going forward and speaking with you again on our next conference call.

Operator

And with that ladies and gentlemen, we thank you for participating in today's conference. This concludes the program, and you may all disconnect. Have a wonderful day.