NorthWestern Energy Group, Inc.

Fourth Quarter 2023 Earnings Call

Presentation

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Good afternoon, and thank you for joining NorthWestern Energy Group's Year-end 2023 Financial Results Webcast. My name is Travis Meyer. I'm the Director of Corporate Development and Investor Relations Officer for NorthWestern. Joining us today to walk you through the results and provide an overall update are Brian Bird, President and Chief Executive Officer; and Crystal Lail, Chief Financial Officer. [Operator Instructions].

NorthWestern's results have been released and the release is available on our website at northwesternenergy.com. We also released our 10-K premarket this morning.

Please note that this presentation, the company's press release, comments by presenters and responses to your questions may contain forward-looking statements. As such, I'll direct you to the disclosures contained within our SEC filings and safe harbor provisions included in the second slide in this presentation. Please also note, this presentation includes non-GAAP financial measures. Please see the non-GAAP disclosures, definitions and reconciliations also included in the presentation today.

The webcast is being recorded. The archived replay of today's webcast will be available for 1 year beginning at 6:00 p.m. Eastern Time and can be found in the Financial Results section of our website.

With that, I'll hand the presentation over to CEO, Brian Bird.

Brian Bird
CEO, President & Director

Thanks, Travis. On the first slide, here we talk about recent highlights. We just had 2 days of Board meetings. And one of the recent highlights was our ability to serve our customers in a cold snap in the middle of January. And really, that cold snap will be demonstrated 2 things: One, it demonstrates our need for capacity. So the importance of the Yellowstone County plant and the incremental Colstrip that we'll be adding in 1/1/26 is the first thing.

The second thing is just a fantastic coordination of our operating folks to serve our customers when they need it most. That means days of minus 45-degree weather, very, very proud of our team and our ability to serve our customers.

So the points on this particular page, recent highlights, reported GAAP diluted EPS of $3.22 for the year and non-GAAP diluted EPS of $3.27. We're affirming our 2024 diluted EPS guidance of $3.42 to $3.62.

We're also affirming our long-term 5-year rate base and earnings per share growth rate targets of 4% to 6%. Also like to point out, we had unanimous approval of multi-party rate review settlements. In Montana, both our electric and natural gas rate reviews. In South Dakota, our electric brake review.

We completed the second and final phase of the holding company reorganization on January 1, 2024. Certainly, can't overlook the monumental task that was and the great work throughout our company to make that happen.

And we have also declared a dividend for the quarter of $0.65 per share payable March 9, 2024, to shareholders of record as of March 15, 2024.

And lastly, a recent highlight for us. Certainly, you talked about it before, but NorthWestern Celebrating 100 Powerful Years. You may recall back in 2012, Montana Power celebrated its 100-year anniversary and our proud companies coming together now collectively been serving our customers in our service territories for over 100 years.

I move forward to the next page, I think about the great outcomes we had in 2023, particularly the rate reviews and clarity associated with earnings growth on a going-forward basis. It still surprises me to see a 5% dividend yield in terms of that clarity. But with that is where we sit today and a base capital plan with a 4% to 6% EPS growth rate with the -- based upon capturing the value of $2.5 billion of investment provides a total return opportunity of 9% to 11%, which is fantastic.

And you can put on top of that opportunities we're focusing on and trying to also capture in our plan associated with accretive EPS projects associated with FERC transmission, incremental generating capacity, trying to buy out certain power purchase agreements and QF facilities. And lastly, electrification supporting economic development, many projects associated with that, that we continue to stay focused on. And with being able to capture any of those helps push us over 11% total return.

So we feel very good about the opportunities for this company on a going forward basis. There's still a tad surprise, we sit here today with a 5-plus dividend yield.

With that, I'm going to pass it to Crystal.

Crystal Lail
VP & CFO

Thank you, Brian spoken like a former CFO, I believe. So good afternoon, everyone, and thank you for joining us to discuss our year-end financial performance here. Brian was highlighting what felt like a year of a lot of execution, I can tell you on the side of the house. And all of that led to the financial performance that we're closing out here, we're going to speak to, but highlighting specifically the element of regulatory execution, and that theme will continue throughout my remarks regarding our financial performance.

As Brian mentioned, closing out the quarter on a non-GAAP basis, we reported EPS of $1.38 in Q4 of 2023, that's versus $1.13 in the fourth quarter of 2022. For a full year perspective on 2023, on a non-GAAP basis, we delivered $3.27 and that's versus $3.18 in 2022.

Moving to Slide 7 for a bit more detail. I'll talk about the fourth quarter and give you a bit of color there and then talk about the year and recap.

Slide 7, you'll see a significant driver [indiscernible] performance is $0.18 of the margin line in Q4, reflecting the impacts of our regulatory execution. That's both on base rates and also our tracking mechanisms. Think about that, both the supply PCCAM impact and also our property tax tracker. In addition, you'll see we have $0.11 of improvement in income taxes versus the prior period, driven by the release of a tax reserve, which is adjusted out, and we'll talk about that in more detail in a minute here.

And then impacts of the Montana rate review. But notably, I would mention that financial performance overall in Q4 was a bit stronger than we had expected, driven by final clarity in the Montana rate review related to ultimately the PCCAM piece and retroactivity of that and also income taxes. Also, we always have estimates in our numbers with regard to the impact of property taxes that are collected through our bills in Montana and had a bit of favorability there too.

Moving to Slide 8. As always, we quantify for you how we think about weather and how that impacted our results. We certainly see volumetric swings there. And '23 versus '22 definitely shows that a $0.09 swing in weather from what was favorable weather in 2022, you'll see that was $0.03 that we backed out versus here in Q4 of '23, it was warm relatively. So we saw a $0.06 of unfavorable weather this year. So versus normal, Q4 of $0.06 of unfavorable added back compared to last year, $0.03 of favorable so you have a $0.09 swing in our performance related to weather.

In addition, you see the release of the tax reserve as discussed related to final [close out] of that uncertain tax positions related to gas repairs, and you will see we have adjusted that out. That is consistent with how we've handled these types of adjustments in the past. So $3.2 million there or $0.05 adjusted out. on a fourth quarter basis, you can see that leads to significant improvement over the prior period of $1.38 on a non-GAAP basis versus $1.13 last year or 22%.

Moving to full year financial performance on Slide 11. Driven by thematically the same types of things driving our numbers as drove Q4, $0.20 of improvement overall before you get to share count dilution was driven by regulatory execution, as we talked about here, driving really recovering our costs that we need to serve customers and also improving our earned returns. That margin improvement was the most significant portion of that offset by a $0.16 swing in weather, I'll say that fast. And I'll speak to that in a little bit more detail, but the continuing theme of what happened in Q4.

Also the same impacts that we're seeing across the industry of higher depreciation, the impact of higher interest rates and of course, inflationary impacts on O&M that we're working hard to manage. This improvement overall of $0.20 versus 2022 was offset by $0.23 of share count dilution on a full year basis.

Moving to Slide 11 for a bit more detail on the margin impact to that, which is, of course, critically important to how we think about the business going forward. Execution of the Montana rate review impacted the first 3 columns as you see them here on Slide 11, including that increase to base rates and also adjustments to our tracking mechanisms, including the PCCAM and the property tax tracker. Notably, I've talked reticently maybe about the PCCAM mechanism in our earnings call frequently. I'm sure you all recall that last year, as we close out the year, we were talking about an unfavorable impact of $7.2 million to us in 2022.

And here in 2023, on the backs of adjusting that base and also receiving a reasonable adjustment to retroactively impact that in 2023, we have a favorable impact of $7 million. So a significant swing versus the detriment we had in our earnings last year to favorability in 2023. The 2023 PCCAM adjustment, I would note, did include reporting an adjustment related to the final outcome in the Montana rate review that was favorable at about $3.1 million.

Offsetting that improvement, as I've already spoken to, was unfavorable weather during the period, driving lower volumes. So you can see a significant improvement overall at the margin line.

Slide 12 shows again how we depict and quantify that weather impact. So for 2023, we had $0.05 of unfavorable weather impacting us. In 2022, on a comparative basis, we have $0.11 of favorable. So you'll see on a year-over-year basis, that's $0.16 of detrimental swing in weather as it relates to our overall numbers.

Overall performance here, I also just would mention we had a tax item in Q1 that was adjusted out the tax item in Q4, those 2 net to 0. So you can see on an overall basis, strong performance in 2023, resulting on an adjusted non-GAAP basis with $3.27 versus $3.18 in 2022 or a 2.8% improvement.

So that closes out my comments on earnings for 2023. And again, I would just say in the face of unfavorable weather and timing of rates and final outcomes there, the most significant piece is working with our commissions on regulatory execution, driving important improvement in our earnings results and what we deliver to shareholders.

And importantly, as I slide to the balance sheet, really on the next slide, positioning us in a point of strength as we move forward. So as we close out 2023, we were at a 13.4% FFO. We have a very clear path in 2024 to be above 14% and staying above that beyond that in our financial plans. We have also affirmed and separated out our strong credit ratings in Q4 as we worked with the rating agencies in advance of our legal holding company reorganization, which I will speak to a little bit more in a minute, but affirmed our credit ratings with each of the agencies.

And then with regard to 2024 financing plans, we've talked about no equity in our plan. So a significant capital plan here to invest and deliver to our customers supported by debt issuances, which will include a bit of refinancing and then a very manageable overall financing plan to support that capital structure and leave us where we need to be, and importantly, in a balance sheet and a position of strength as we move forward.

Moving to Slide 14. Brian has already mentioned, overall, the strength of our investor thesis and where we see our earnings growth rate at a 4% to 6% EPS growth. We had announced 2024 guidance in Q4 of a $3.4 to $3.62, and we are reaffirming that here. Also, no material changes in how we think about the business going forward and where we expect to be on an overall FFO perspective. And all of this, I think, leaves us in a good spot from both a shareholder perspective, but importantly, to our customers as well to deliver to them.

And a key piece of that, as you think about Slide 15 in our capital plan is no material updates from what we talked to you about when we released our guidance for 2024 and rolled this plan forward. But overall, it's a balanced plan, the significant opportunities on both the electric and gas side T&D, and also some generation build out here. As we've talked about, we don't ever include anything into our plans until we know that we're doing them. And we currently believe there's certainly upside to opportunity as planned, but it's balanced to provide us a strong balance sheet, a self-funded plan, managing the impact of customers [indiscernible] overall rates, while importantly focused on the reliability needs of our customers as well.

My final -- close to final comment here, South Dakota electric rate review. Many of you know, we filed that rate review. In June of last year, we worked with the South Dakota Commission here. In January, we received approval of our settlement and implemented final rates on January 10, 2024. I would mention that in South Dakota, we have a very strong relationship with the South Dakota Commission and staff. They're very fair regulators. They hold us to a high standard, but they also appreciate the efficiency with which they work through rate cases and do their due diligence. So we were able to close out that and implement our final rates in January of 2024 here.

And you'll see that final adjustment is a $21.5 million adjustment for rate relief. Notably, the most important piece there, we managed O&M during that period, and that's something we talked about the Commission. They asked us lots of questions on that. But it's a significant amount of investment in the state, including a gas peaker similar to Yellowstone as well, our scale that we constructed during COVID, on time, under budget and serving customers and they definitely see the importance of reliability. So overall, a really good process with the South Dakota Commission that will impact and is reflected in our 2024 guidance.

And finally, closing out my comments, we also -- another element of our regulatory execution. We had filed with our commissions and received approval to complete a legal restructuring and [form a] holding company, as most of you know, that is a structure similar to what -- how most of our peers are legally structured. And so this completes that process. We effectuated the final steps of that here basically moving into 2024. And this is just another significant area of moving forward where we want to be positioned. We notably, however, don't expect to see any differences from how we finance the business or move forward with this reorganization completed.

So with that, I will turn it back to Brian for concluding remarks.

Brian Bird
CEO, President & Director

All right. Crystal. Thank you so much. Here, just on this conclusion page, I just want to say one thing. We felt very, very good about 2023 and all that we accomplished. First and foremost, we have one of our best safety years as a company. We continue to have higher reliability for our customers. Two very good rate reviews in both Montana and South Dakota through settlements again, properly balancing what affordability for our customers and what we need in essence, to continue to be a strong financial company to serve those customers.

Very good outcome and getting to a holdco something we've been thinking about and trying to put in place for many years. Now that's effectuated. We took great steps way back in January of 2023 of announcing incremental Colstrip to come into service on 1/1/26 for us, obviously, continue to fight through many challenges on Yellowstone County with that plant being online from our perspective to serve customers for our summer peak.

Lastly, being able to look at our plant and work really hard to identify means to increase our growth rate -- long-term earnings growth rate to 4% to 6%. And that's for '23, has a great setup for 2024. We're very excited about that. We need to certainly obviously execute on our plan. We need to stay focused on safety, we obviously need to balance reliability, affordability and sustainability as a company. And we also need to make sure on a going-forward basis, we're able to achieve our earnings and growth targets.
And with that, I'm going to pass it back to Mr. Meyer.

Question and Answer

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Thank you, Brian, and thank you, Crystal. [Operator Instructions] We'll take our first question from Paul Fremont at Ladenburg.

Paul Fremont
Ladenburg Thalmann & Co. Inc., Research Division

Looking at the segment section in your 10-K, I noticed that you don't have sort of the new entities delineated in the 2023 10-K. Are you going to have -- when you file your FERCs in April, are you going to be able to show the Montana utility versus the non-Montana properties separately? Or is that a '24 event?

Crystal Lail
VP & CFO

Paul, it's Crystal. Great detailed question. And our segments will continue to be electric and gas. Obviously, we've separated the 2 utilities and have that level of detail in the FERC filings, indeed. You should be able to see the separation between Montana assets and South Dakota assets and electric and gas. So if you have more specific accounts, we certainly can help you through those, maybe offline, but you should be able to see that breakout.

And then indeed, the transition of this operation of assets legally occurred on January 2. So you'll see a bit more footnote disclosure in our 10-Q filings starting going forward with Q1.

Paul Fremont
Ladenburg Thalmann & Co. Inc., Research Division

Great. And then with respect to South Dakota, is there an agreed upon level of return on equity for AFUDC calculations?

Crystal Lail
VP & CFO

That's a great question, Paul. And there is, indeed, I don't know that it's public. And so I will just tell you the South Dakota Commission prefers to do black-box approach to settlements. I think you'll see this with some of our peers. We're very focused on getting to a revenue number overall that supports and earn return that is in line with where we expect to be and the approach that, that Commission may take might look like an overall lower approach to ROE, but a solid approach to giving us the total revenue recovery that we need.

Mr. Meyer is giving me an assist over there by holding up a sign that says the AFUDC rate, which seems a little...

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Well, 6.4%. So we do have it disclosed in the 10-K in the section on our property, plant and equipment. We have the rate of 6.4% for AFUDC in Montana -- in South Dakota...

Crystal Lail
VP & CFO

That would be based on what we actually recorded in 2023. And the way I would say that is I don't expect to change that in 2024.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

And it's about the same rate in Montana to that same 6.4%.

Paul Fremont
Ladenburg Thalmann & Co. Inc., Research Division

Great. And then has the EPA gone any further on the proposed emission standards that you had talked about on some of your earlier calls? And where do things stand on that?

Brian Bird
CEO, President & Director

Paul, we're still waiting. I understand there's still -- we talked about this earlier today. I think we're weeks if not months out from hearing from EPA.

Paul Fremont
Ladenburg Thalmann & Co. Inc., Research Division

Great. Congratulations on a great quarter.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Okay. We will take our next question from a line that ends in 5990. Looks like area code 347. All right. Do we have you here? It's Sophie, correct?

Sophie Karp
KeyBanc Capital Markets Inc., Research Division

This is Sophie Karp, KeyBanc. Congrats on the strong results and all the regulatory achievements. And maybe I can just ask you a conceptual question here. First, Brian and Crystal, you guys mentioned all of the good things you've accomplished and you're surprised to see the 5% dividend yield and we are too. So I'm curious, what do you think is missing from the story? Maybe what do you glean from conversations with investors?

Brian Bird
CEO, President & Director

Well, I certainly understand we have taken steps. I think we are addressing balance sheet concerns. I think you'll see in '24 a 14-plus FFO dealing with that issue. We acknowledge. We still have a bit high dividend payout ratio. But as we continue to grow earnings at a faster clip, we'll deal with that issue. I certainly believe there's some sort of fire discount in our shares. But I would tell you that we continue like other utilities, making great efforts not only from an operational perspective but on many fronts, looking at that.

Beyond that, I think with the outcomes we've just received and execution of our plan, I don't understand why we would be trading where we're trading, and I'll leave it at that, Sophie.

Sophie Karp
KeyBanc Capital Markets Inc., Research Division

Got it. Got it. Okay. And then maybe real quick on the Montana elections that we will be watching at some point. What are your thoughts on the candidate lineup and to the extent you can comment on how you see this development?

Brian Bird
CEO, President & Director

I learned a long time ago, not to talk politics. But I will say this, we know we're going to have 2 new Commissioners in Montana. President Brown has acknowledged he's running for another state office. And Commissioner, O'Donnell terms out. So we know for sure too, Commissioner, Fielder is running. And no commentary on any of their opponents or who will be in those races. We have until March 11, I believe, for people to finalize who's running for these positions.

But we know for sure, that we're going to have 2 new commissioners. And that's all I'll say. I will just tell you this, from our perspective, what we need to do to demonstrate whoever's sitting in those chairs, what we're doing is in the best interest of our customers. And obviously, we're doing in best interest of our shareholders. And they have to think about it as they have clearly pointed out in this last rate review, they understand according to the rules that they need to find that proper balance, too.

And we certainly appreciate that, and we'll continue to work with all interested parties to come to similar outcomes.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Okay. With that, we'll give it just another minute here, but then we don't want to have any other calls in the queue or hands in the queue.

All right. With that, I'll hand it back to Brian for some closing thoughts.

Brian Bird
CEO, President & Director

First of all, certainly acknowledging we think from a share performance, we should be doing better, but I also want to reach out and thank all of you, who continue to follow stock and all of you who are strictly invested. We certainly are thinking about your best interest here as well. And hopefully, that improves share performance, we'll meet your expectations. Thank you very much.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer
Have a great day.