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ATCO Ltd.

Fourth Quarter and Year End 2022 Results Conference Call Transcript

Date: Thursday, March 2, 2023

Time: 12:00 PM ET

Speakers: **Colin Jackson** - Senior Vice President, Finance, Treasury, Risk & Sustainability
Katie Patrick - Executive Vice President, Chief Financial & Investment Officer
Adam Beattie - President, ATCO Structures

Conference Call Participants:

Jessica Hoyle Scotiabank – Equity Research Associate

Ollie Primak CIBC Capital Markets – Equity Research Associate



Operator:

Welcome to the ATCO Ltd. Fourth Quarter and Year End 2022 Results Conference Call and Webcast.

I would now like to turn the conference over to Mr. Colin Jackson, Senior Vice President, Finance, Treasury, Risk and Sustainability. Please go ahead, Mr. Jackson.

Colin Jackson:

Thank you. Good morning, everyone. We're pleased you could join us for ATCO's Fourth Quarter 2022 Conference Call.

With me today is Executive Vice President and Chief Financial and Investment Officer, Katie Patrick; and Adam Beattie, President of ATCO Structures.

Before we move into our formal agenda, I'd like to take a moment to acknowledge the numerous traditional territories and homelands on which our global facilities are located. Today, we're speaking to you from our ATCO Park head office in Calgary, which is located in the Treaty 7 Region. This is the ancestral territory of the Blackfoot Confederacy, comprised of the Siksika, Kainai and Piikani Nations, the Tsuut'ina Nation and the Stoney-Nakoda Nations, that include the Chiniki, Bearspaw and Goodstoney First Nations. The City of Calgary is also home to the Métis Nation of Alberta, Region 3. We honour and respect the diverse history, languages, ceremonies and culture of the indigenous peoples who call these areas home.

The call today will begin with some opening comments from Katie on recent Company developments and financial results, followed by an update from Adam on our Global Structures business. After the prepared remarks, we will take questions from the investment community.

Please note that a replay of the conference call and a transcript will be available on our website at atco.com and can be found in the Investors section under the heading Events and Presentations.

I'd like to remind you all that our remarks today will include forward-looking statements that are subject to important risks and uncertainties. For more information on these risks and uncertainties, please see the reports filed by ATCO with the Canadian securities regulators.

Finally, I'd also like to point out that during this presentation we may refer to certain non-GAAP or other financial measures, such as total of segment measures, adjusted earnings, adjusted earnings per share and capital investment. These measures do not have any standardized meaning under IFRS and, as a result, they may not be comparable to similar measures presented in other entities.

Now, I'll turn the call over to Katie for her opening remarks.

Katie Patrick:

Thanks, Colin, and good morning, everyone. Thank you all very much for joining us today for our Fourth Quarter 2022 Conference Call.

Before we move into more detailed financial information, I wanted to touch on a few of the significant achievements we had last year. 2022 was a busy year. Our business delivered record high adjusted earnings and 11 per cent year-over-year earnings growth, with all of the businesses within our portfolio driving meaningful contributions. We secured key contracts within our Frontec business, including the North Warning System in conjunction with long-time Inuit partners, the Nunasi Corporation, and the Pan Arctic Inuit Logistics Corporation.



Structures continue to deliver on its Bechtel Pluto II LNG project in Australia and increased its footprint in the US market through project awards. We saw our Canadian Utilities investment make significant strides in the execution of its energy transition strategy, while continuing to deliver operating excellence within its core utility businesses. These are truly exceptional results and a testament to the operational and management expertise that we have across our portfolio.

Now, on to our financial performance. 2022 was a great year for ATCO. We achieved adjusted earnings of \$423 million or \$3.71 per share for 2022. This is \$41 million or \$0.36 per share higher than 2021. The largest contributors to this exceptional performance were our Canadian Utilities business, and our Structures business.

Canadian Utilities saw adjusted earnings grow \$69 million from \$586 million in 2021 to \$655 million in 2022. At the ATCO level, this translated to year-over-year earnings gross of \$38 million from our investment. The strong performance from our Canadian Utilities investment was driven primarily by their international natural gas distribution business and the outperformance of the Alberta distribution utilities.

We note that at CU, in Q4, we caught up on some timing of operating cost that were delayed throughout the year and also took the opportunity to advance some maintenance activities in 2023 into 2022, which sets us up well for next year. I would, however, remind everyone of two key points as we look ahead to 2023.

Key driver of the Australian natural gas distribution businesses' 2022 performance was the heightened Australian inflation environment and the resulting CPI indexing that is part of their regulatory framework. Current estimates suggest that Australian CPI will begin to trend downward to more normal levels in the 3 per cent to 4 per cent range for the coming year. Therefore, we expect earnings from this business to normalized levels more in line with historical performance.

The second point in relation to CU relates to the Alberta distribution utilities. 2022 marked the end of the businesses' second performance-based regulation cycle. As evidenced by the outperformance the business delivered in 2022, they were very successful in driving efficiencies during this term. Looking ahead to 2023, however, they will now enter a cost-of-service rebasing year where these efficiencies will be shared with rate payers. While they still expect to outperform, we expect outperformance to be tempered and to be more in line with long-term historical averages.

Moving back to more positive items. The team at Frontec successfully secure many new contracts, including a support services contract for the Department of National Defense, and the North Warning System contract in conjunction with our Inuit partners in the region. And while I don't want to steal Adam's thunder, ATCO structures had a similarly impressive year, driving growth and further optimizing their fleet and continuing to progress their project work, particularly with Bechtel in Australia related to the Pluto II LNG expansion, capping off the year with their successful acquisition of Triple M Housing, a leading North American manufacturer of modular housing.

To speak to some of these successes and provide an update on the Structures business, I'll hand the call over to Adam now.

Adam Beattie:

Thank you, Katie, and good morning, everyone.

As Katie alluded to, our Structures business carried 2021's momentum into increased year-over-year performance in 2022. This saw us increase our base business performance and execute a number of strategic initiatives. Our base business is primarily comprised of our Global Space Rentals fleet, which



grew significantly in 2022, as we increased our fleet size and our average rental rates. We also positioned new fleets across our markets and geographies to support the sustaining base business growth model.

In our Global Workforce Housing segment, we continue to refine our fleet and tailor it to the specific needs of customers. A key strategy in 2022 was to repurpose or sell under utilized Workforce Housing fleet assets, improving Workforce Housing fleet performance and allowing us to redeploy capital into our Space Rentals growth plan. This program was primarily focused in our US business.

Additionally, of strategic importance was our continued focus on securing and executing a range of workforce housing combination projects. This includes small accommodation projects and also large-scale accommodation projects, like LNG Canada and the Pluto II LNG expansion.

Overall, we have our ability to secure and successfully execute workforce housing projects of all scales, significantly improve over the last few years. In addition to the strong general Workforce Housing performance, in all our geographies, our ongoing execution in Australia of the 2,200-person accommodation facility contracted by Bechtel for the Pluto II expansion project, is progressing very well.

Our US growth strategy also continues to provide a strong, repeatable growth platform and we have recently secured a number of new contracts in that market, including a 116-unit project in Texas with TIC (Kiewit) and a 50-unit project in Louisiana for KBR & Zachry Group.

Another strategic initiative that we've been very active on in this year is increasing Structures' performance in the modular residential sector. We were especially excited to announce a successful acquisition of Triple M Housing, which is the largest manufacturer of single-family modular homes in western Canada. This acquisition brings not only Triple M's experienced workforce, but also its custom-built manufacturing facility located in Lethbridge, Alberta and an extensive dealer network located throughout Canada. These dealers have significant distribution networks and a customer base that have been critical to the multiple decades of success that Triple M have achieved.

Residential modular construction has been a strategic focus area for us, and is a market segment that we believe will become increasingly important in meeting the needs of a growing population. It is well known that housing supply shortages and significant demand has Canada in a housing crisis. Modular homes are one, if not the prominent, solution to bridge this supply and demand gap. The speed, price efficiency and ability to resource production outputs versus traditional construction, provides positive indicators that these build process and product form will continue to be in demand.

Triple M provides high-quality homes manufactured in a climate-controlled facility that is not impacted by seasonal weather conditions that limit onsite construction activities and allowing shortened lead times and competitive prices to consumers. This is an acquisition that we are extremely excited about. While we have had some success in this space in recent years, this acquisition provides us significant scale, an established customer base and the opportunity to expand our position as a global leader and innovator in modular construction across diverse segments, creating a long-term opportunity for growth.

We expect that these modular residential line of our business will serve as part of our growing base business earnings, further expanding the nonproject portion of our total earnings.

I'll now pass the call back to Katie. Thank you.



Katie Patrick:

Thanks, Adam. We're all very excited about Structures' advancements and this new acquisition.

Moving now to Neltume Ports, the business continued to add meaningful earnings and dividends throughout 2022. Growth and the deployment of capital continues to be a key area of focus at Neltume. We're confident that this will create meaningful opportunities for new investment in the near term.

Overall, ATCO had an exceptional year that saw us deliver year-over-year earnings growth and execute on a number of key strategic initiatives to pivot our portfolio, including continued progress towards the achievement of our 2030 ESG targets. The work being done within our CU business to drive energy transition, alongside the numerous strategic initiatives underway across our non-energy investments, would be key to the success of our diversified portfolio strategy at ATCO. I'm excited to continue moving this forward in 2023.

That concludes my prepared remarks. I will now turn the call back to Colin.

Colin Jackson:

Thank you, Katie and Adam.

In the interest of time, we ask that you limit yourself to two questions. If you have additional questions, you are welcome to rejoin the queue.

I will turn it over to the conference co-ordinator now for questions.

Operator:

Thank you. Our first question comes from Jessica Hoyle of Scotiabank. Please go ahead.

Jessica Hoyle:

Great. Thanks very much. I wanted to start with a question on Structures & Logistics. Given the economic outlook, how are you thinking about Structures' income moving forward? Can you touch just a little bit more on some of the tailwinds and headwinds that you're seeing so far this year for that business line?

Adam Beattie:

Thank you, Jessica. Firstly, probably I'll start with the tailwinds, and on that part, tailwinds and headwinds. What we're seeing is we're actually starting the year with high utilization, the high average rental rates, and also very good management performance within our businesses that's generating good rental contribution on our activity.

Those tailwinds are the basis of really generating good earnings performance for us going forward into 2023, as well as combined with a new business line in Triple M and then obviously some good workforce housing project activity that we have.

If we look at the headwinds, there's always obviously the economic indicators externally that may put some pressure on some of those performances in the back half of this year. But what I am seeing is certainly that the lead activity that we have, particularly in some of their mid-sized to large-sized project opportunity in certain markets where we have larger business bases, like Australia, continue to perform and they're not seeing a fall off in some of their performance activity there that we can foresee into the future.

The first part of the question as well was?



Jessica Hoyle:

Just ties into that but just thinking about Structures' income moving forward relative to 2022.

Adam Beattie:

I can see us improving our earnings position on our 2022 performance because we believe that some of those tailwinds have some very strong beneficial activity, and then we complement that with the introduction of Triple M's that will provide positive earnings in 2023.

Jessica Hoyle:

That's great colour. Thanks for that. As you mentioned late last year you were active in acquiring Triple M Housing. Just moving forward, curious how you are currently doing tuck-ins as a way to grow the Structures business?

Adam Beattie:

Certainly. Well, look, inorganic growth is definitely a part of our strategic pathway as this complements or accelerates our organic growth objectives that we also have. I think we consider many factors in that, but we do like as a tuck-in or the smaller sized acquisition because it does complement that acceleration pathway to our earnings and our business performance and we've been very successful in integrate tuck-ins of the small to medium size. What I like about the Triple M acquisition is not only does it complement our core business, there's a lot of synergies there, but it also provides us or opens up an opportunity to a new market for us as well, increased customer base, new product line, which complements our geographic diversification that we've achieved over the last couple of years.

Jessica Hoyle:

Great. Thanks very much.

Operator:

Our next question comes from Ollie Primak of CIBC. Please go ahead.

Ollie Primak:

Good morning guys. I'm just stepping in for Mark Jarvi here at CIBC. I had a question on the Structures & Logistics as well. Specifically, I'm noticing that the average rental rates and utilization for Global Space Rentals and Workforce Housing segments has been increasing over the last three years, however, it seems that the margins seem to continue to tighten over that same period. I'm just wondering if you can comment on the key drivers of this trend and what we can expect going forward.

Katie Patrick:

Yes. I'll let Adam handle that. But I think there was a few projects that we highlighted that had some issues last year that negatively impacted some of the margins. But overall, I think we are seeing, as we say, an increasing overall space rentals rate and utilization going up as well that I'll Adam comment upon.

Adam Beattie:

Yes. Thank you. Certainly, I think the margins are increasing. As Katie mentioned, there's a couple of anomalies there, smaller anomalies that are completed now. But overall, the margins have increased. One of our strategic objectives is certainly that utilization, while its an indicator, part of it around reducing the slight reduction in the utilization is around market penetration. As we grow our business



we implement new capital and new fleet assets in new markets, and we look to manage our rates to access, penetrate new markets and obviously take market share off competitors as well.

So that's part of the strategy. You'll see over time sometimes those indicators are used differently in the strategy of the business as we enter new markets and penetrate new customer bases.

Ollie Primak:

That makes sense. Just a follow-up here on the Structures & Logistics. Within the Structures & Logistics, and considering the Space Rentals and the Workforce Housing, and then also now with this Triple M acquisition, how are you viewing the different businesses? Are any of them more—are you excited about either one or both of them just as much, or are there any areas of the business that you're seeing a potential for greater upside and growth?

Adam Beattie:

I'm excited by all the business lines. I think there are really three core business lines there. As I said, I think all of them have good forward-looking opportunities and as market indicators in each of those, I'll call them business lines, that are positive. What I'm quite encouraged about is the lead activity on the larger scale projects, particularly in the US, Australia, and some in Canada. Now they tend to have a longer cycle between FID and award placement. But I think what we've done is we've really structured our business very well to capitalize on those opportunities, particularly in those core markets of Australia, the US and Canada. That's complemented with we're really well versed and diversified and structured our management team across those geographies rather than having them quite centralized.

So that puts key people, key management, key disciplines inside those businesses, and Triple M has a new business line, just adds another dimension to our growth capability.

Ollie Primak:

That's really great colour. Thanks a lot guys. I'll get back in the queue.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Colin Jackson for any closing remarks.

Colin Jackson:

Thank you, Ariel, and thank you all for participating today. We appreciate your interest in ATCO and we look forward to speaking with you again soon.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.