

UTL Earnings Call Transcript

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Quarter: 3

Operator: Good day, and thank you for standing by. Welcome to the Third Quarter 2025 Unitil Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Chris Goulding, Vice President of Finance and Regulatory. Please go ahead.

Christopher Goulding: Good afternoon, and thank you for joining us to discuss Unitil Corporation's Third Quarter 2025 financial results. Speaking on the call today will be Tom Meissner, Chairman and Chief Executive Officer; and Dan Hurstak, Senior Vice President, Chief Financial Officer and Treasurer. Also with us today are Bob Hevert, President and Chief Administrative Officer; and Todd Diggins, Chief Accounting Officer and Controller. We will discuss financial and other information on this call. As we mentioned in the press release announcing today's call, we have posted information including a presentation to the Investors section of our website at unitil.com. We will refer to that information during this call. The comments made today about future operating results or events are forward-looking statements under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements inherently involve risks and uncertainties that can cause actual results to differ materially from those predicted. Statements made on this call should be considered together with cautionary statements and other information contained in our most recent annual report on Form 10-K and other documents we have filed with or furnished to the Securities and Exchange Commission. Forward-looking statements speak only as of today, and we assume no obligation to update them. This presentation contains non-GAAP financial measures. The accompanying supplemental information more fully describes these non-GAAP financial measures and includes a reconciliation to the nearest GAAP financial measures. The company believes these non-GAAP financial measures are useful in evaluating its performance. With that, I will now turn the call over to Chairman and CEO, Tom Meissner.

Tom Meissner: Thank you, Chris. Good afternoon, everyone, and thank you for joining us today. I'm going to begin on Slide 3, where today, we announced adjusted net income, excluding transaction-related costs of \$0.4 million and adjusted earnings of \$0.03 per share for the third quarter of 2025. This represents an increase of \$0.01 per share compared to the third quarter of 2024. Through the first 9 months of the year, adjusted net income was \$33.5 million or \$2.03 per share an increase of \$1.4 million or \$0.03 per share compared to the same period of the prior year. During this call, I'll cover several business updates, including the successful integration of Bangor Natural Gas into our utility operations, the recent closing of our Maine Natural Gas acquisition, the status of the Aquarion Water transaction and our ongoing rate case in New Hampshire. In addition, in connection with our recent acquisitions, we recently completed a \$72 million equity offering which strengthened our balance sheet and improved our credit metrics. As of September 30, our ratio of funds from operations to debt was approximately 17%. Looking ahead, we see continued strong execution of our plan and reaffirm our guidance for earnings growth, dividend growth and rate base growth. Turning now to the 3 acquisitions on Slide 4. We're pleased to have acquired 2 highly complementary natural gas companies in Maine and have now fully integrated Bangor natural gas into our existing operations. I'm extremely proud of our employees throughout the company, including our colleagues in Bangor, whose focus and dedication led to this successful outcome. With the integration now complete, we expect to file our first distribution rate case in early 2027. As noted earlier, we closed our acquisition of Maine Natural Gas on

October 31. Having successfully integrated Bangor Natural Gas, we're confident the integration of Maine Natural Gas will also be completed efficiently and effectively. With that in mind, we currently plan to file a base rate case for Maine Natural Gas in mid-2027 somewhat after the Bangor Natural Gas filing. With regard to the Aquarion transaction, the regulatory approval processes are progressing as planned. The New Hampshire Public Utilities Commission approved the acquisition on October 7, and we expect orders in Connecticut, Massachusetts in Maine during the fourth quarter of this year. As I've said before, with their geographic fit, potential for synergies and strong growth profiles, these companies are ideal additions to our utility operations. We look forward to providing the excellent service that our customers throughout Maine, Massachusetts and New Hampshire have come to expect. Turning to Slide 5. As mentioned on our previous call, we expect the acquisitions to accelerate rate base growth to approximately 10% annually through 2029 supporting earnings growth in the upper half of our guidance range. Collectively, we expect the transactions to be earnings accretive once new distribution rates take effect. Turning now to Slide 6. Next, I'd like to provide updates on 2 significant electric investments, our Utility-scale solar project in Kingston, New Hampshire and our Advanced Metering Infrastructure or AMI project. The solar facility, which on Project of the Year at the New Hampshire Energy Week is fully operational and is producing energy consistent with or above our modeled expectations. This is a first of its kind project in the state of New Hampshire and is capable of powering roughly 2,000 homes, reducing the amount of energy we would otherwise import from the regional grid. We are currently seeking recovery of this investment in our New Hampshire rate case. Moving to our Advanced Metering upgrade. The project is progressing as planned, and the replacement in Massachusetts will be completed by year-end with our work in New Hampshire beginning next year. These meters increase the flow of actionable data to empower our customers and enable improved decision-making and grid optimization. The meter upgrades in Massachusetts and New Hampshire will require approximately \$40 million of capital investment. In Massachusetts, a portion of this investment is eligible for accelerated cost recovery. Moving on to Slide 7. We recently released our 2025 corporate sustainability report and remain on track to reduce company-wide direct greenhouse gas emissions by 50% by 2030 and to be net-zero by 2050. This pledge underscores our continued commitment to environmental stewardship sustainability and corporate responsibility. Our safety metrics are excellent. Our customers are highly satisfied with our service, and our employees are proud to work for Unitil. One example of an operational initiative we undertook to improve efficiency and reduce emissions is leveraging fleet data using telematics to support effective and sustainable decision-making. This initiative collects and analyzes performance data, including driver behavior and fuel consumption to optimize fleet performance. We have been working diligently to improve fleet performance over the years and believe this will enable us to make beneficial changes that will improve efficiency, lower costs and support our greenhouse gas reduction goals. With that, I'll now pass it over to Dan, who will take us through greater detail on our third quarter financial results.

Daniel Hurstak: Thank you, Tom. Good afternoon, everyone. I'll begin on Slide 8. As Tom mentioned, Today, we announced third quarter adjusted net income of \$0.4 million and adjusted earnings per share of \$0.03, representing an increase of \$0.01 per share compared to the same period in the prior year. For the first 9 months of the year, adjusted net income was \$33.5 million and adjusted earnings per share were \$2.03, representing an increase of \$1.4 million or \$0.03 per share compared to the corresponding period in 2024. Moving to Slide 9. I will discuss our electric adjusted gross margin. For the 9 months ended September 30, 2025, electric adjusted gross margin was \$86.4 million, an increase of \$4.7 million or 5.8% and compared to the same period in 2024. The increase in electric adjusted gross margin reflects higher distribution rates and customer growth. The company added approximately 560 new electric customers compared to the same period in 2024, including 126 new commercial and industrial customers. As noted during prior calls, electric distribution revenues are substantially decoupled which eliminates the dependency of distribution revenue on the volume of electricity sales. Turning to Slide 10. I will discuss our gas adjusted gross margin. For the 9 months ended September 30, 2025, gas adjusted gross margin was \$134.7 million, an increase of \$19.1 million or approximately 16.5% compared to the same period in 2024. The increase in gas adjusted gross margin reflects higher distribution rates, customer growth and the effects of colder winter weather in 2025. The company added approximately 9,400 new gas customers compared to the same period in 2024, including

approximately 8,800 customers from the acquisition of Bangor Natural Gas. As of September 30, 2025, approximately 55% of the company's gas customers were under decoupled rates. When excluding Bangor Natural Gas, gas adjusted gross margin was \$127.3 million, an increase of \$11.7 million or 10.1% compared to the corresponding period in 2024. This increase in gas adjusted gross margin, excluding Bangor, is in large part due to higher distribution rates and customer growth as well as an increase in weather-normalized sales of 2.4% for our Northern Maine division. On Slide 11, we provide an earnings bridge comparing the results of the first 9 months of 2025 to the same period in 2024. As I just discussed, adjusted gross margin for the first 9 months of 2025 increased by \$23.8 million, primarily driven by higher distribution rates, customer growth and colder winter weather. Bangor Natural Gas accounted for \$7.4 million of total gas adjusted gross margin for the first 9 months of 2025. Operation and maintenance expenses increased \$8.7 million compared to the same period in 2024. This increase in operation and maintenance expenses includes \$2.6 million related to Bangor Natural Gas operating expenses and \$2.3 million of transaction costs. Transaction costs are excluded from adjusted net income and adjusted earnings per share. Excluding Bangor Natural Gas and transaction costs, operation and maintenance expenses increased \$3.7 million primarily reflecting higher utility operating costs and higher labor costs. In addition, certain transmission expenses were higher in 2025 based upon approved formula rates in our Fitchburg service area. Depreciation and amortization expense increased by \$10.5 million, reflecting higher depreciation rates from recent base rate cases, additional depreciation associated with higher levels of utility plant and service and higher amortization of recoverable storm costs and other deferred costs. Depreciation and amortization expense for Bangor Natural Gas was \$2 million. Taxes, other than income taxes increased \$0.5 million primarily due to higher local property taxes on higher utility plant and service. Interest expense increased \$5.2 million, reflecting higher levels of long-term debt and higher interest expense on regulatory liabilities, partially offset by lower interest expense on short-term borrowings. Other expense decreased by \$1 million, reflecting lower retirement benefit costs. Income taxes increased \$0.2 million, reflecting higher pretax earnings. And lastly, transaction costs of \$2.3 million are added back to GAAP net income to arrive at adjusted net income of \$33.5 million for the 9 months ended September 30, 2025. We believe excluding transaction costs when reviewing earnings provides a better representation of the company's ongoing financial performance. Turning to Slide 12. As discussed on previous calls, on May 2, 2025, we filed a base rate case for Unitil Energy Systems, our electric distribution company in New Hampshire. The proposed permanent rate increase is \$18.5 million. Our requested temporary rate increase of \$7.8 million, which was approved as filed, took effect July 1, 2025. In New Hampshire, permanent rate case awards are reconciled back to the effective date of the temporary rate award. The pro forma rate base included in this filing is \$289 million and includes the company's solar facility that was placed into service in June. Similar to previous New Hampshire rate cases, we have proposed a 2-year rate adjustment plan to provide for accelerated cost recovery of 2025 and 2026 capital investments. The deadline for discovery on the company's initial testimony is today and the deadline for intervenor testimony is set for December 11. We have been able to settle prior base rate cases in New Hampshire and settlement discussions for this proceeding are scheduled for early 2026. We expect permanent rates will take effect in the second quarter of next year. Moving to Slide 13. Our balance sheet strength continues to be a top priority. The equity offering completed in August with net proceeds of approximately \$72 million enhance the strength of our balance sheet and fulfill the equity need for the Bangor Natural Gas and Maine natural gas transactions. We have committed debt financing in place for the pending Aquarion transaction, and we expect to ultimately capitalize acquired companies in a credit-supportive manner with capital structure similar to our existing regulated subsidiaries. With our current funds from operations to debt ratio of nearly 17%, we are firmly above our downgrade thresholds in the average FFO to debt ratio of other utility companies. Turning to Slide 14. Our capital spending for the year is consistent with expectations, and we continue to expect to fund the majority of our capital plan with operating cash flows less dividends. Our current 5-year capital plan, which now includes the 2 main gas companies and the pending Aquarion acquisition totals approximately \$1.1 billion and is 19% higher than the prior 5-year plan. Consistent with prior years, we anticipate providing a full update to our investment plan during the fourth quarter earnings call. Moving to Slide 15. We are reaffirming our 2025 earnings guidance range of \$3.01 to \$3.17 per share with a midpoint of \$3.09 per

share on an adjusted earnings basis. We expect recent acquisitions once new distribution rates take effect to support long-term earnings growth in the upper half of our earnings guidance range of 5% to 7%. I will now turn the call back to Tom.

Tom Meissner: Thanks, Dan. Ending on Slide 16, we are on pace for yet another successful year and remain laser-focused on executing our strategic priorities. We've successfully integrated Bangor Natural Gas completed the purchase of Maine Natural Gas and have maintained the operational excellence we are known for. We're focused on sustainable growth and remain confident in our execution and our ability to provide strong shareholder returns for many years. With that, I'll pass the call back to Chris.

Christopher Goulding: Thanks, Tom. That wraps up the prepared material for this call. Thank you for attending. I will now turn the call over to the operator who will coordinate questions.

Operator: [Operator Instructions] Our first question comes from Matvey Tayts with Freedom Broker.

Matvey Tayts: So my question is about -- so if you compare Slide 19 and Slide #5, so you'll see that base rate -- total base rate is \$1.152 million as of 9 months 2025. And on the Slide #5, it says that 2025 forecast is \$1.4 million, which looks like significantly more than we already have on the Page #19. So is it a function of M&A; to be consolidated. This is my first question. And also -- the second one is also regarding this Slide #19. So if you compare this slide to the previous one in the second quarter, so the total rate base change like just by \$1 million. But at the same time, we see that like CapEx net of depreciation was like \$33 million. So is it also a function of later revision by the regulator. So that's my question.

Daniel Hurstak: Sure. Thanks. Well, I guess, we'll take those in order. So the difference between the \$1.2 million in rate base on Slide 19 and the \$1.4 million of rate base on Slide 5 reflects the additional rate base for the acquired companies, Maine Natural Gas, Bangor Natural Gas and Aquarion. The difference in CapEx versus rate base increase is a function of when capital projects are closed and placed into service and when the initial capital expenditures are paid or funded. So for a lot of the projects that we have on an annual basis, those capital expenditures will go into construction work in progress during the year, and it closed out later in the year once the assets are placed in service.

Matvey Tayts: Yes. Okay. So -- but just one more additional follow-up on the first one. So this \$1.4 million, it's it includes additional base rate for all 3 companies, which will be acquired, right, not for the one which will be acquired by the end of 2025. So there is also some implications for future M&As, right?

Daniel Hurstak: Correct. The amount here in the light blue shaded box would capture all 3 acquisitions.

Operator: [Operator Instructions] I'm showing no further questions at this time. This concludes today's conference call. Thank you for participating. You may now disconnect.