OTTER TAIL CORPORATION

2020 Second Quarter Earnings Conference Call

FORWARD-LOOKING STATEMENT

This presentation contains statements that may be considered forward-looking statements. Such statements contain the word “expect,” “anticipates” or words of similar meaning, or speak to management’s expectations regarding the EPS growth goals, sales, total shareholder returns, financing activities and rate base growth. These statements speak of Otter Tail’s plans and expectations. Actual results could differ materially, because the realization of those results is subject to many uncertainties including: regulatory approvals and results; the direct or indirect impacts from the novel coronavirus (COVID-19) pandemic on our sales, our operations and our ability to complete construction projects; unanticipated construction costs or delays; economic conditions in the states we do business in; and other factors, some of which are discussed in more detail in Otter Tail’s Form 10-K for the year ended December 31, 2019 or in our other SEC Filings. The information in this presentation was prepared as of May 5, 2020. Otter Tail undertakes no obligation to update any forward-looking information statement to reflect developments after the statement is made.

MANAGEMENT TEAM

- Chuck MacFarlane
  President and Chief Executive Officer

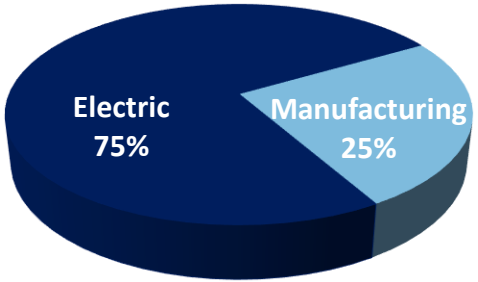
- Kevin Moug
  Senior Vice President and Chief Financial Officer

COMPANY OVERVIEW

OTTER TAIL CORPORATION

- ELECTRIC
  - OTTER TAIL POWER COMPANY
- MANUFACTURING PLATFORM
  - MANUFACTURING SEGMENT
    - BTD
    - T.O. PLASTICS
  - PLASTICS SEGMENT
    - NPP
    - VINYLTECH VT PVC • PIPE

Target earnings contributions



Electric
- Competitive low-cost operations
- Constructive regulatory environment
- Attractive rate base growth

Manufacturing
- Long-term growth potential
- Capacity utilization
- Diversification

MANAGING COVID-19 | WELL POSITIONED OPERATIONALLY

- Employee and public safety remains our top priority.
- Mitigation efforts in place across the organization.
- Utility disconnects suspended and late payment fees waived temporarily for our customers.
- No immediate disruptions to our supply chain.
- No current general rate case involvement.
- Expected $380 million in capital expenditures for 2020.
  - Electric Segment accounts for 96% driven by renewable and natural gas-fired generation.
  - No current plan to limit capital expenditures.
- Strong balance sheet, ample liquidity, constructive regulatory environment, and commitment to maintaining strong credit ratings and metrics.

Q2 2020 FINANCIAL SUMMARY AND HIGHLIGHTS

	Q2 2020	Q2 2019
Operating Revenues (in millions)	$192.8	$229.2
Net Income (in millions)	$17.0	$15.4
Diluted EPS	$0.42	$0.39

- Based on our YTD performance and our updated view of the impacts from COVID-19, we are raising our 2020 earnings per share (EPS) guidance range to $2.10-$2.30 from $2.00-$2.25 per diluted share.
- Electric Segment EPS increased $0.14 primarily driven by continued execution of rate base growth projects and reduction in O&M expense mainly due to lower QoQ plant maintenance expense related to the extended outage at Coyote in 2019.
- Manufacturing Segment EPS decreased $0.09 primarily due to softening demand in their end markets from COVID-19-related impacts. BTD effectively manages costs to help offset lower revenues.
- Plastics Segment EPS decreased $0.03 driven by lower volumes of pipe sold and lower pipe prices.
- Lower corporate costs positively impact EPS $0.01 driven primarily by recovering equity markets in Q2 resulting in gains on our corporate-owned life insurance and captive insurance investments.

KEY COVID-19 FINANCIAL RISKS

	Potential Impacts	Mitigation Factors
Electric Segment	• Lower commercial and industrial sales volumes • Increased bad debt expense and waived late fees • Personal protection equipment costs • Sequestration/quarantine-related costs • Potential capital project delays	• Higher margin residential usage • O&M expense reductions • Rigorous COVID-19 safety programs and project management • Filed for COVID-19 Cost Treatment Orders in all three jurisdictions
Manufacturing Segment	• Decreased revenue due to temporary customer plant shutdowns and lower sell-through • Lower scrap revenue	• BTD has implemented temporary rotating furloughs. Reduced approximately 180 positions or 16% of total workforce across all its sites. • O&M expense reductions
Plastic Segment	• Compressed margins	• O&M expense reductions
Parent/Liquidity	• Volatile capital markets	• No 2020 debt maturities • Adequate liquidity under credit facilities • No further 2020 pension contributions • Up to $28 million of remaining equity needs under ATM, DRIP, and ESPP

ESG HIGHLIGHTS

2022 Projections

30%

RENEWABLE RESOURCES

that we own or secure through power purchase agreements

30%

CARBON REDUCTION

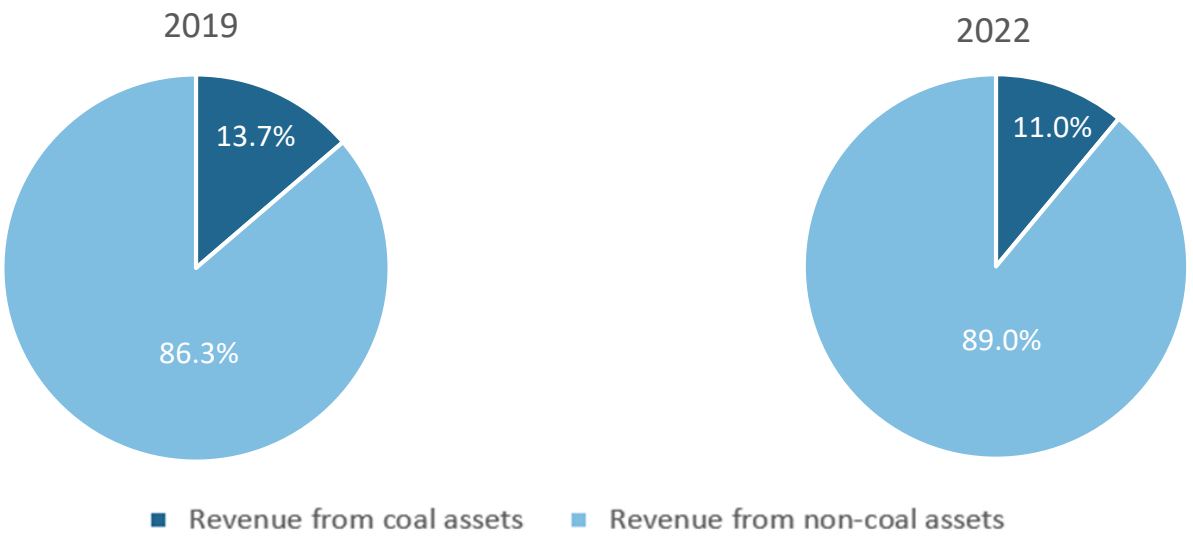
from 2005 levels

30%

LOWER RATES

compared to the national residential average

CONSOLIDATED REVENUES FROM COAL ASSETS



Footnotes:

1. Consolidated revenues include estimated returns on coal generation facility rate base investment, fuel expenses, O&Ms, depreciation, property taxes, and coal conversion taxes.
2. By 2022 the Hoot Lake Plant retirement combined with the Merricourt Wind Energy Center and Astoria Station result in a reduction in revenue and earnings from coal.

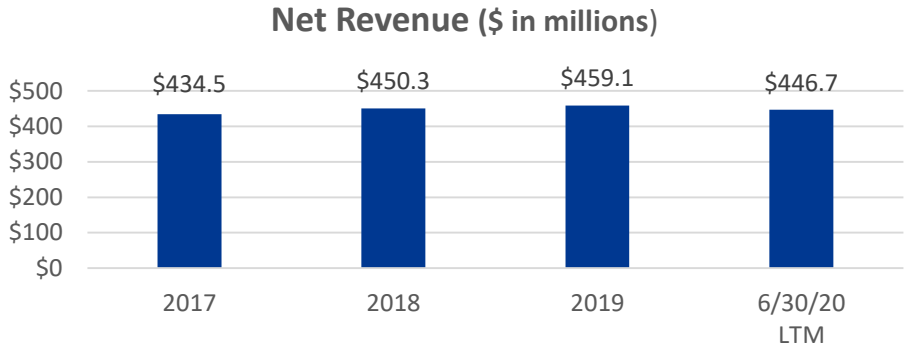
ELECTRIC PLATFORM

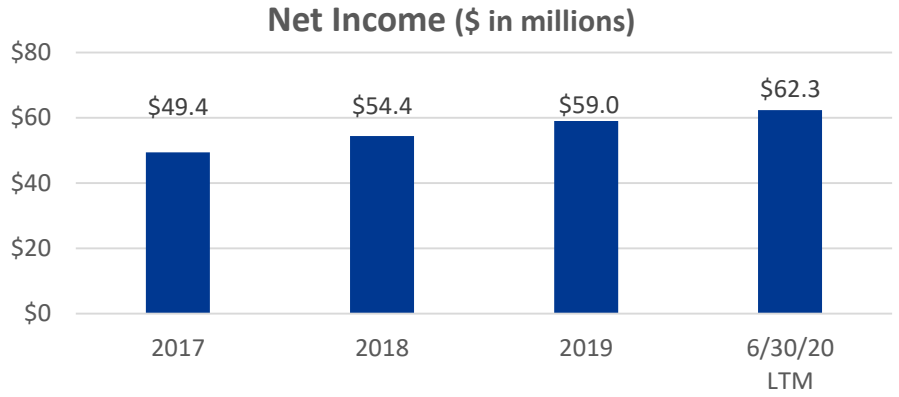


ELECTRIC OPERATIONS

Highlights

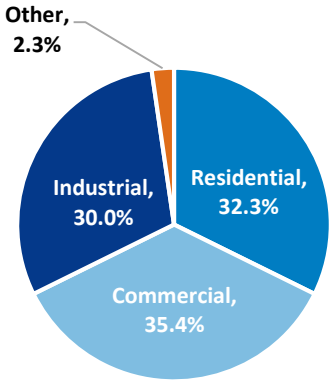
- Rate base growth opportunities
  - Merricourt Wind Energy Center
  - Astoria Station natural gas-fired plant
  - South Dakota transmission reliability project
- Softening commercial and industrial load resulting from COVID-19 beginning in Q2 partially offset by increased residential load
- Constructive regulatory environment
- Suspended disconnects for late payments and waived late-payment fees for residential and small business customers during COVID-19 pandemic.
- YTD 2020, weather has negatively impacted EPS by $0.07 vs. 2019





CUSTOMER MIX AND REGULATION – COVID UPDATE

Revenues by Customer



Regulatory Matters

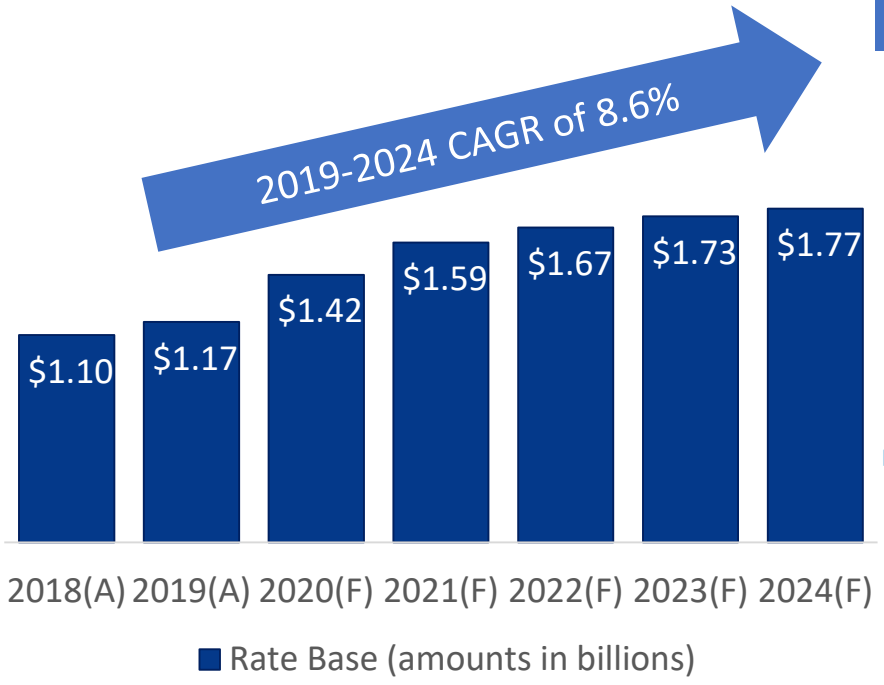
Filing in place for all jurisdictions to request COVID-19 related cost treatment order
2019 Annual Deprecation Filing
Updated Transmission Cost Recovery Rider filing relating to MN MVP Supreme Court Decision
Anticipated November 2020 filing of MN rate case

Decoupling	Weather Normalization	Bad Debt Trackers
No	No	No

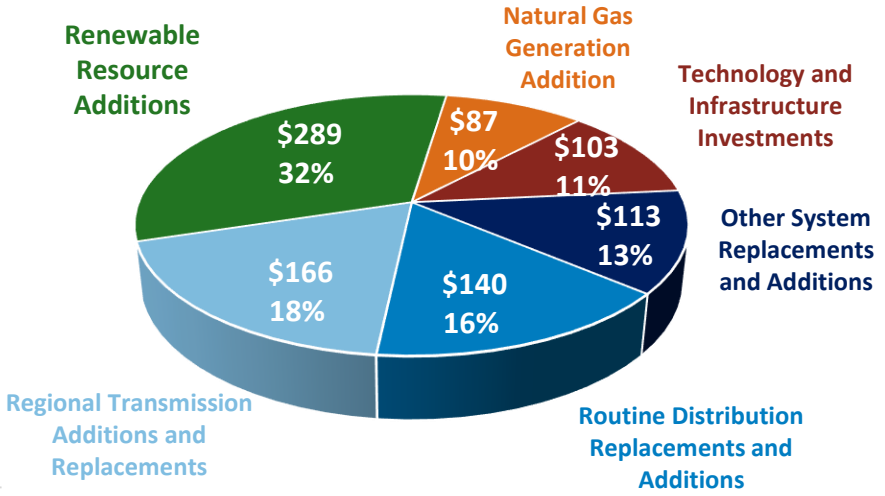
Estimated 2020 Electric Revenue Impact (%)

(Weather Normalized)	Q2 (YoY)	Annual (YoY)
Residential	2.0%	2.8%
Commercial	-2.8%	1.1%
Industrial	-18.7%	-12.9%
Total Electric Revenue	-3.9%	-0.1%

RATE BASE GROWTH



Capital spending of $898 million from 2020 to 2024 divided among:



Recovery Mechanism	Amount (in Millions)	Percentage
Depreciation (Rate Base Replacement)	$366	41%
Riders	$450	50%
Rate Case	$82	9%
Total	**$898**	**100%**

REGULATORY FRAMEWORK

Riders	Minnesota	North Dakota	South Dakota
Wind Projects	Rider recovery / Rate case	Rider recovery / Rate case	Phase-In Rider / Rate case
Transmission	Rider recovery / Rate case	Rider recovery / Rate case	Rider recovery / Rate case
Non-renewable Generation	Rate case	In State Preference/ADP/ Rate Case (Astoria Station rider eligible)	Phase-In Rider / Rate case
Environmental	MN plants and outstate plants with ADP: Rider recovery/rate case	Rider recovery / Rate case	Rider recovery / Rate case
Fuel Clause	Trued up annually	Trued up monthly	Trued up monthly
Rate Cases	Forward-looking test year	Forward-looking test year	Historical test year with known-and-measurable adjustments
Allowed ROE	9.41%	9.77%	8.75%

A constructive regulatory environment provides for timely recovery of capital and a fair economic return.

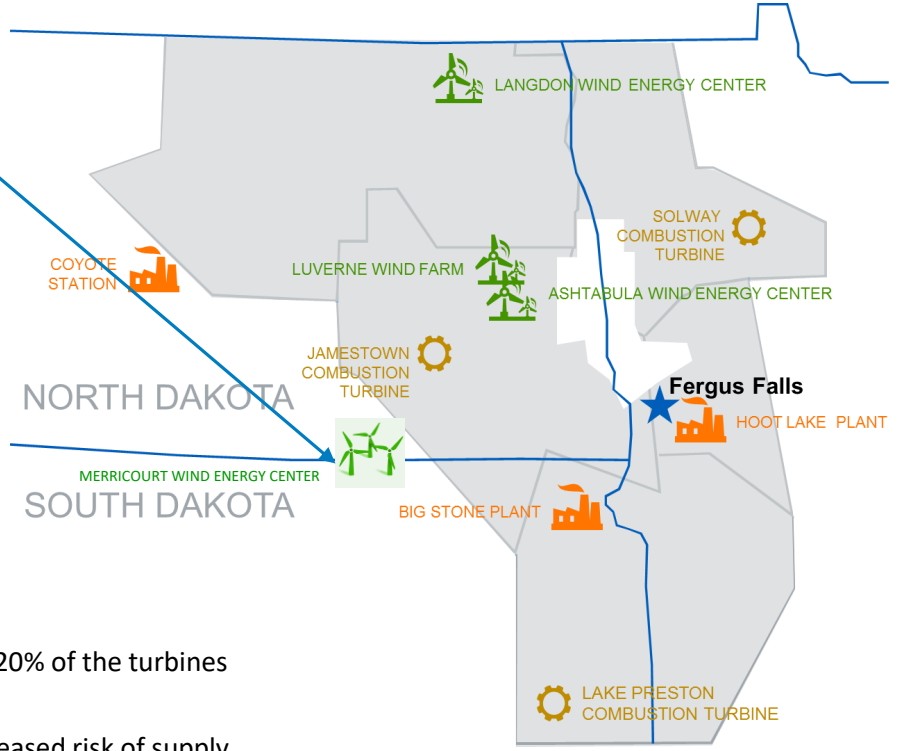
We recover approximately 50% of our five-year capital expenditures through riders. (including phase-in mechanisms and direct billing generators).

RATE BASE PROJECTS

Project	Our Investment (Millions)	In Service	Percent Complete	Recovery Mechanisms
Big Stone South – Ellendale (MVP)	$115	2019	100%	Rider
Merricourt Wind Energy Center	$260	2020	60%	Rider/General Rate Case
SD transmission reliability project	$39	Phase I 2019 Phase II 2021	100% 60%	Rider/General Rate Case
Self-fund transmission	~$50	2019-2021	~75%	Facility Service Agreement
Solar investment	Up to $60	2021-2023	0%	Rider/General Rate Case
Astoria Station 245 MW natural gas simple-cycle combustion turbine	$154	2020-2021	51%	Rider/General Rate Case
Innovation 2030	$145	2019-2024	~5%	Rider/General Rate Case
Ashtabula III: option to buy 62.4 MW wind farm	$50	Option to purchase 2022	NA	Rider/General Rate Case

MERRICOURT WIND ENERGY CENTER

Project	
Description	150 MWs Capacity factor ~ 50% to 55%
Schedule	2017 – 2020 Construction started Q3 2019
OTP Cost	$260 million

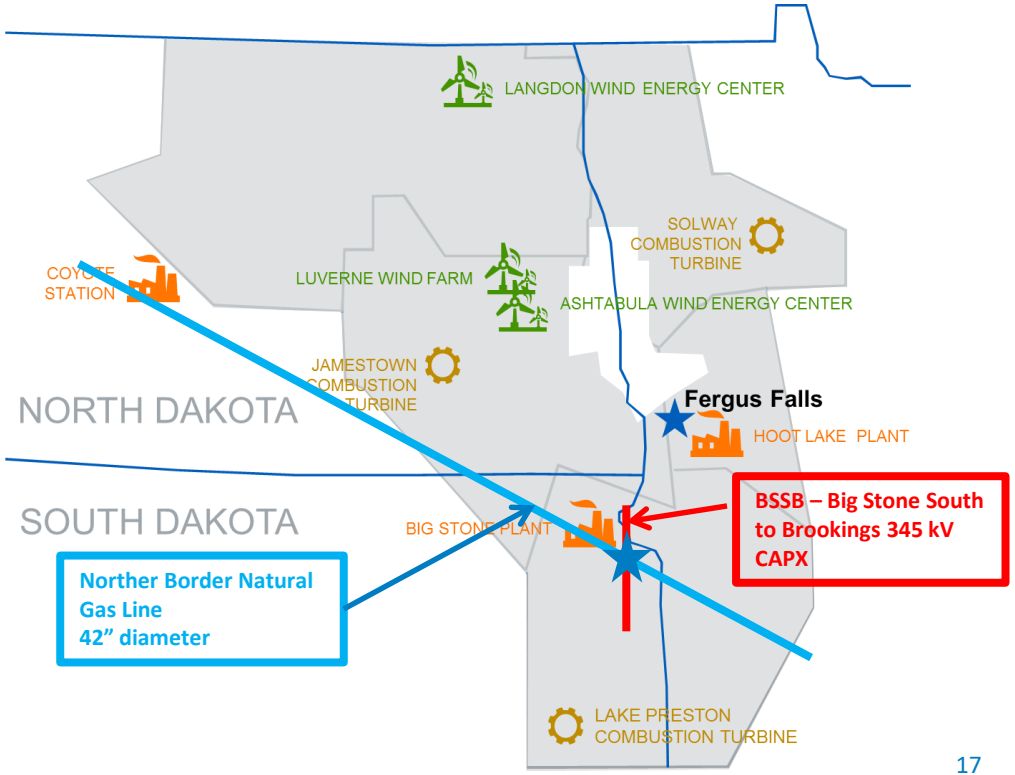


- MN PUC approved 2017 Resource Plan.
- MN PUC approved rider recovery with a cost cap.
- ND PSC approved Advance Determination of Prudence.
- SD PUC approved Phase-In Rider eligibility.
- ND PSC approved Renewable Resource Rider.
- FERC approved Generator Interconnection Agreement.
- Construction started August 2019. Project foundations are now complete. 20% of the turbines have been delivered with the first one recently erected.
- Project scheduled for completion before December 31, 2020, but with increased risk of supply chain and labor related delays. PTC qualification period has been extended to 12/31/2021.

ASTORIA STATION NATURAL GAS PLANT

Project	
Description	245-MW simple cycle unit
Schedule	2020-2021 Construction started Q2 2019
OTP Cost	$154 million

- MN PUC approved 2017 Resource Plan.
- ND PSC approved Advance Determination of Prudence and use of Generation Cost Recovery Rider.
- SD PUC issued site permit and approved Phase-in Rider eligibility.
- FERC approved Generator Interconnection Agreement.
- Construction started in Q2 2019. We awarded the general work contract in Q4 2019 and remain on track with construction progress.
- All major equipment is on-site.
- Project continues to be on schedule for late 2020 or early 2021 completion with increased labor related risk.



ADVANCING ECONOMIC RECOVERY

Minnesota Relief and Recovery Proposal – Potential Projects.

- 12 projects submitted with estimated total cost of $153-173 million



Renewable Generation ~$60 million



Infrastructure and Reliability Improvements ~$18 million



Technology Advancement ~$71 million

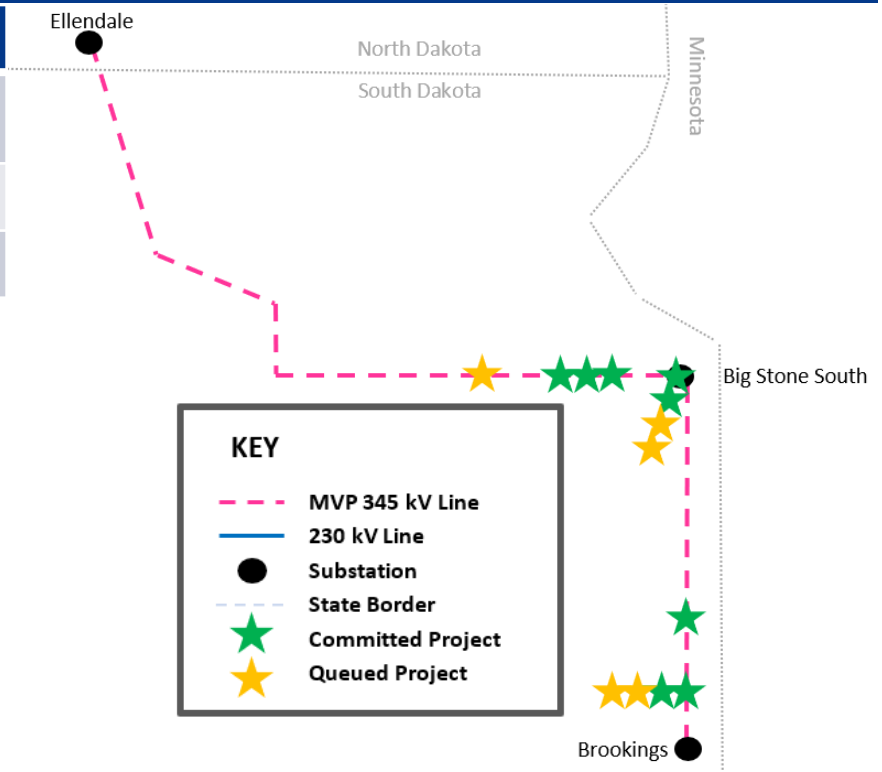


Electric Vehicle Infrastructure/Conservation and Building Upgrades ~$14 million

SELF-FUND TRANSMISSION PROJECTS

Project	Self-Fund Transmission Projects
Description	OTP to fund transmission upgrades associated with new generator interconnections.
Schedule	2019 - 2021
OTP Cost	~$50 million

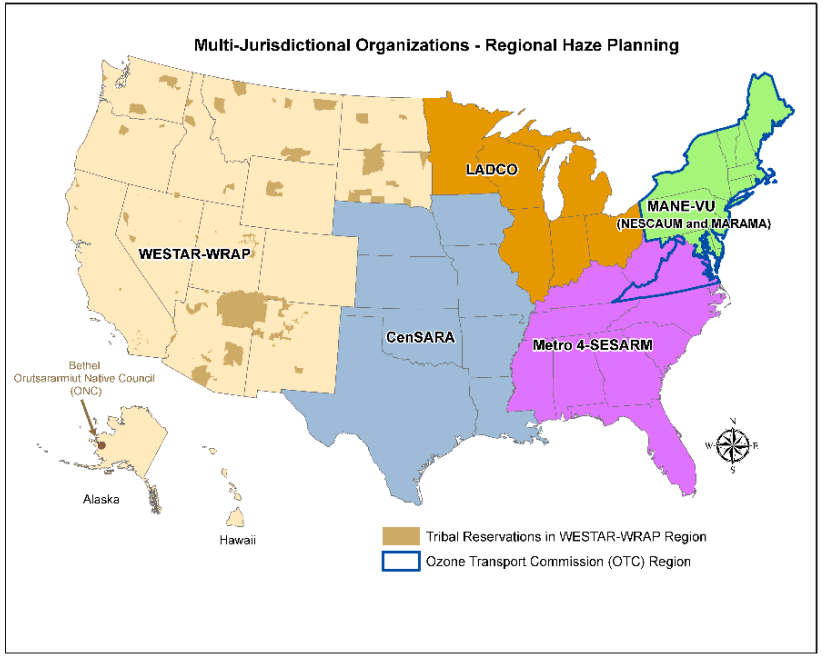
- Approximately 23 different transmission upgrades identified.
  - 11 upgrades completed (most are underway)
- Facility Service Agreement (FSA) allows Otter Tail to recover cost of transmission upgrades over 20-year period from generator interconnection customers.
- FERC has approved 27 of 33 FSAs, with 5 FSAs filed at FERC and 1 FSA being prepared for filing.
- Construction completed to date: ~75%



Note: Some upgrades have more than one FSA as part of that project.

COYOTE STATION REGIONAL HAZE UPDATE

- Continue to monitor progress on Federal Regional Haze Rule compliance planning process in North Dakota.
- North Dakota Department of Environmental Quality (DEQ) and State of North Dakota have many milestones to reach before the State submits its Implementation Plan to the Environmental Protection Agency (EPA).
- Coyote Station owners continue analyze data and decisions that will impact the plant and our employees, customers, and communities.
- DEQ will begin the Public Comment Period regarding its recommendation on Coyote Station compliance strategy in early 2021.
- State of North Dakota will submit its State Implementation Plan to the EPA in July 2021.



MANUFACTURING PLATFORM

BTD

northern pipe products

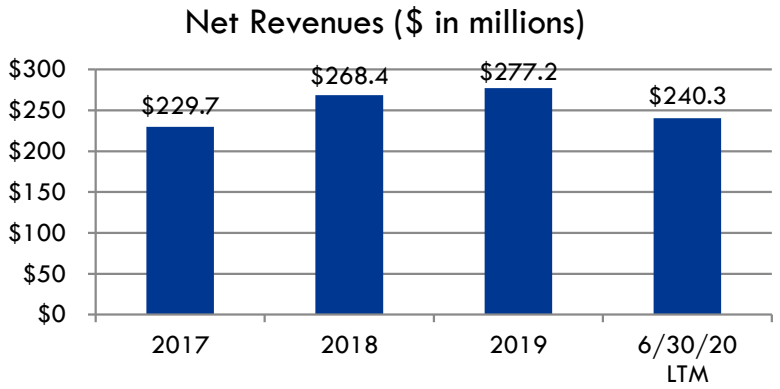
T.O. PLASTICS

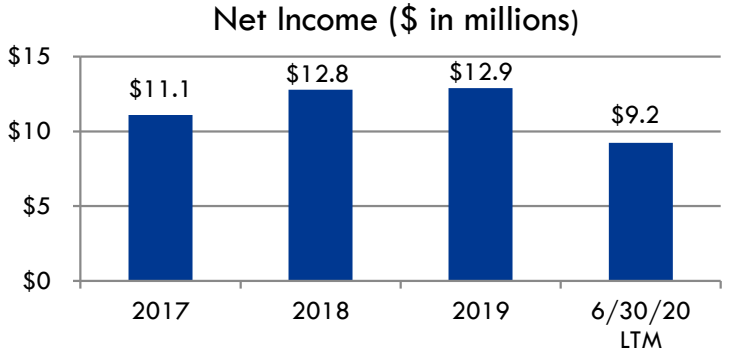
VINYLTECH VT PVC • PIPE

MANUFACTURING

- Contract metal fabrication – stamping, machining, tube bending, welding, painting, assembly
- Growth opportunities with existing customer base and expansion with new customers

- Manufacturer of plastic thermoformed horticultural containers, contract life science, industrial packaging and material handling components





Highlights

- Softening demand in end markets from COVID-19-related impacts negatively impacted Q2 2020 EPS by $0.09
- BTD effectively manages lower revenue impacts from COVID-19 through cost and staff reductions.
- Continued operational improvements across all its locations
- Impacted by slowdown of oil and gas fracking equipment

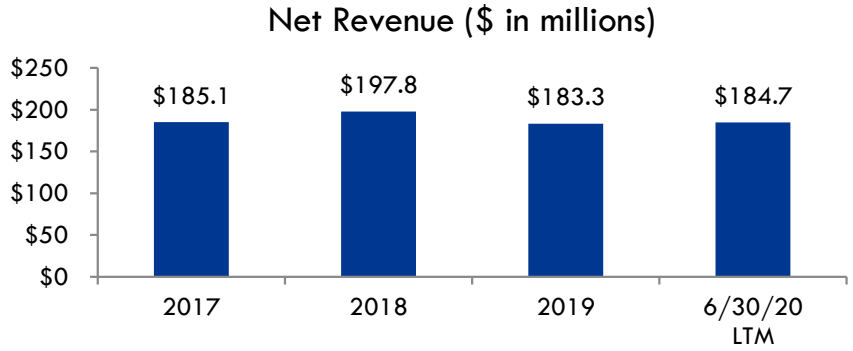
PLASTICS

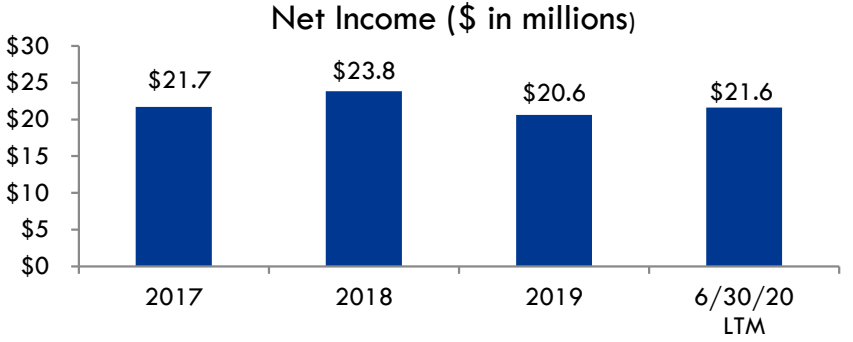
- Manufactures PVC (polyvinyl chloride) pipe in ND
- Approximate production capacity of 150 mm lbs of PVC (~ 2.5% of total market)

- Manufactures PVC pipe in AZ
- Current capacity of 150 mm lbs (~ 2.5% of total market)

Highlights

- Managing business well in diverse business cycles
- Operational excellence
- Sensitive to economic conditions
- Excellent customer service provides competitive advantage
- 2017 earnings impacted by an estimated $.09 per share due to hurricane-related dynamics





FINANCIAL UPDATE

Q2 EPS 2019 VS. Q2 EPS 2020

		Q2 EPS 2019 vs. Q2 EPS 2020				
		Electric	Manufacturing	Plastics	Corporate	Consolidated
	Q2 2019 Diluted Earnings per Share	**$ 0.19**	**$ 0.10**	**$ 0.15**	**$ (0.05)**	**$ 0.39**
Electric	Decrease in O&M expense	0.07				0.07
	Costs for extended maintenance outage at Coyote Station in 2019	0.05				0.05
	Increase in renewable and generation rider revenue	0.05				0.05
	Weather related revenue increase	0.02				0.02
	Fuel and purchased power (net)	0.02				0.02
	Increase in AFUDC	0.02				0.02
	Decrease in retail revenue (exclusive of weather)	(0.05)				(0.05)
	Decrease in transmission revenue	(0.02)				(0.02)
	Increase in depreciation, amortization and interest expense	(0.02)				(0.02)
Manufacturing	Decrease in sales volume		(0.12)			(0.12)
	Decrease in gross profit margin		(0.01)			(0.01)
	Decrease in O&M expense		0.04			0.04
Plastics	Decrease in lbs. of pipe sold			(0.02)		(0.02)
	Decrease in gross profit per lb. of pipe sold			(0.01)		(0.01)
Corporate	Increase in value of corporate owned life insurance and equity investments				0.01	0.01
	Q2 2020 Diluted Earnings per Share	**$ 0.33**	**$ 0.01**	**$ 0.12**	**$ (0.04)**	**$ 0.42**

YTD EPS 2019 VS. YTD EPS 2020

		YTD June EPS 2019 vs. YTD June EPS 2020				
		Electric	Manufacturing	Plastics	Corporate	Consolidated
	YTD June 2019 Diluted Earnings per Share	$ 0.66	$ 0.22	$ 0.24	$ (0.07)	$ 1.05
Electric	Increase in renewable and generation rider revenue	0.12				0.12
	Costs for extended maintenance outage at Coyote Station in 2019	0.05				0.05
	Decrease in O&M expense	0.03				0.03
	Fuel and purchased power (net)	0.03				0.03
	Increase in AFUDC	0.03				0.03
	Weather related revenue decrease	(0.07)				(0.07)
	Decrease in transmission and wholesale revenues	(0.04)				(0.04)
	Increase in depreciation and amortization expense	(0.03)				(0.03)
	Increase in interest expense	(0.03)				(0.03)
	Reversal of SD refund provision in 2019 for TCJA	(0.02)				(0.02)
Manufacturing	Decrease in sales volume		(0.16)			(0.16)
	Decrease in O&M expense		0.06			0.06
	Increase in gross profit margin		0.01			0.01
Plastics	Increase in lbs. of pipe sold			0.01		0.01
	Increase in gross profit per lb. of pipe sold			0.01		0.01
Corporate	Decrease in value of corporate owned life insurance and equity investments				(0.03)	(0.03)
	Tax effect of vesting stock-based compensation awards				(0.01)	(0.01)
	Decrease in O&M expense				0.01	0.01
	YTD June 2020 Diluted Earnings per Share	$ 0.73	$ 0.13	$ 0.26	$ (0.10)	$ 1.02

COVID-19 BUSINESS IMPACTS

Earnings & dividend impact

2020 Guidance Revised

- Based on our YTD performance and updated view of impacts from COVID-19, we are raising our 2020 earnings per share (EPS) guidance range to $2.10-$2.30 from $2.00-$2.25 per diluted share.
- Dividend continues to be supported by strong balance sheet, operating cash flows, liquidity and our credit facilities and solid financial coverage ratios.
- Continue to expect long-term EPS CAGR 5-7% using 2019 $2.17 per share.

CapX Plan

Unchanged

- Continue to execute utility rate base growth projects.
- Construction of Merricourt expected to be completed before December 31, 2020. Continue to monitor potential COVID-19 related impacts.
- Construction of Astoria Station remains on time and on budget within service date later this year or early 2021. Continue to monitor potential COVID-19 related impacts.
- No current plans to limit capital expenditures with ample liquidity to support our capital plans.

Liquidity

Sufficient

- Liquidity modeling continues to show we have sufficient liquidity based on our current assumptions of how COVID-19 is expected to impact our business.
- $175 million Private Placement completed in October 2019
  - Funded $100 million in October 2019
  - Funded $35 million delayed draw in February 2020
  - Will fund remaining $40 million delayed draw in August 2020
- Issued ~$47 million of equity under ATM, DRIP & ESPP since Q4 2019.
- Ability to increase OTTR credit facility through accordion feature up to $290 million
- Ability to increase OTP credit facility through accordion feature up to $250 million
- No debt maturities due until December 2021

COVID-19 STRONG LIQUIDITY POSITION

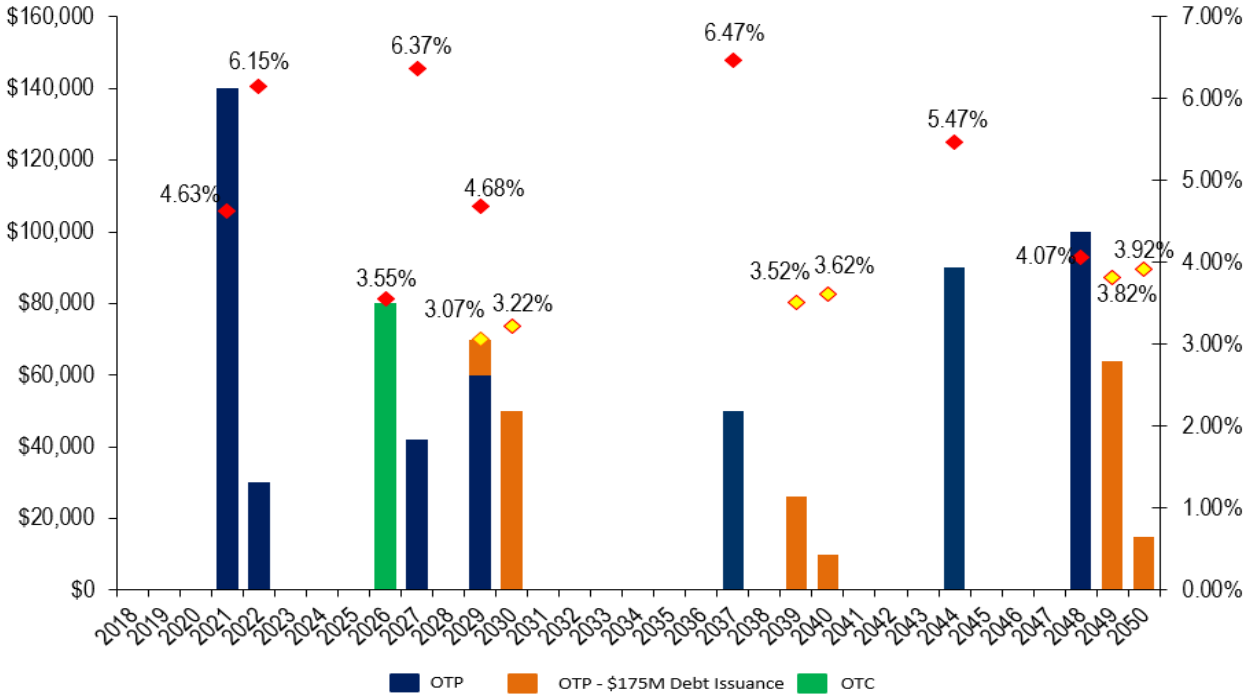
	December 31, 2019		July 31, 2020	
	OTC	OTP	OTC	OTP
Total Credit Capacity	$170.0	$170.0	$170.0	$170.0
Outstanding				
Borrowings	(6.0)		(45.9)	
Letters of Credit		(15.5)		(7.7)
Unused	$164.0	$154.5	$124.1	$162.3
Expiration Date			October 31, 2024	October 31, 2024

CREDIT RATINGS

Otter Tail Corporation	Moody's	Fitch	S&P
Corporate Credit/Long-term Issuer Default Rating	Baa2	BBB-	BBB
Senior Unsecured Debt	N.A.	BBB-	N.A.
Outlook	Stable	Stable	Stable

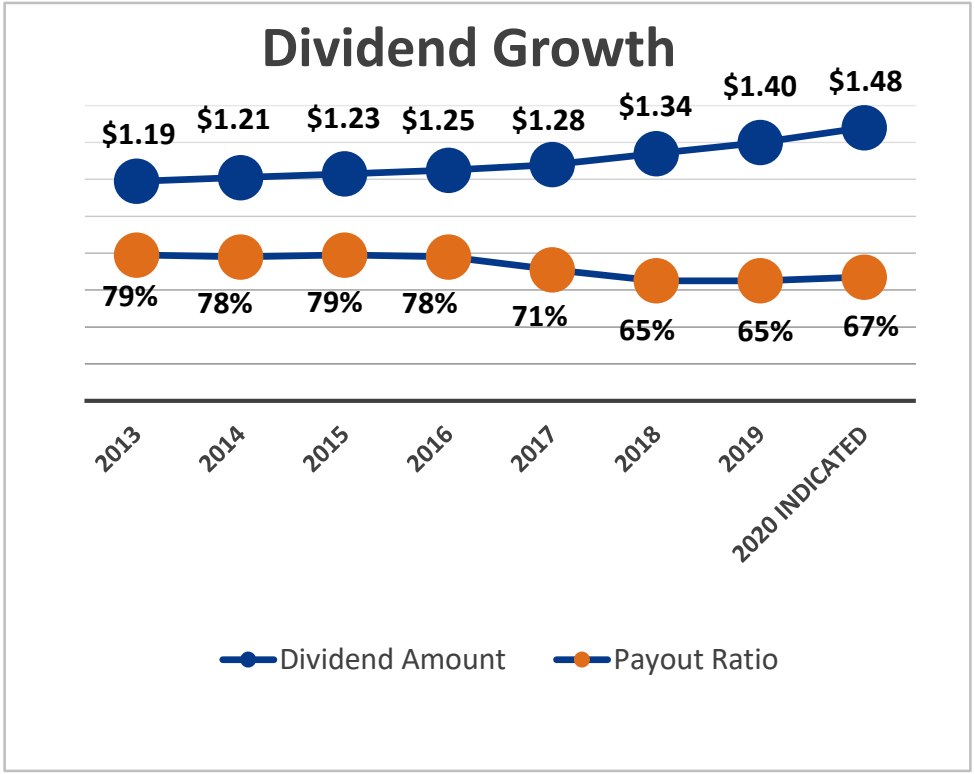
Otter Tail Power Company	Moody's	Fitch	S&P
Corporate Credit/Long-term Issuer Default Rating	A3	BBB	BBB+
Senior Unsecured Debt	N.A.	BBB+	BBB+
Outlook	Stable	Stable	Stable

BOND MATURITY SCHEDULE



HISTORY OF DIVIDEND GROWTH

- Consecutive annual dividends without interruption paid since 1938.
- Indicated increase of $.08/share (5.7%).
- Strong balance sheet, liquidity, cash generation profile, and commitment to enhancing shareholder returns.



CAPITAL EXPENDITURES

(in millions)	2019	2020	2021	2022	2023	2024	Total
Capital Expenditures:							
Electric Segment:							
Renewables and Natural Gas Generation		$ 258	$ 65	$ 53	$ --	$ --	$ 376
Technology and Infrastructure		--	11	28	32	28	99
Distribution Plant Replacements		20	25	28	31	30	134
Transmission (includes replacements)		62	14	30	30	30	166
Other		26	23	25	25	24	123
Total Electric Segment	$ 187	$ 366	$ 138	$ 164	$ 118	$ 112	$ 898
Manufacturing and Plastics Segments	20	14	17	17	19	17	84
Total Capital Expenditures	$ 207	$ 380	$ 155	$ 181	$ 137	$ 129	$ 982
Total Electric Utility Average Rate Base	$ 1,170	$1,415	$1,587	$1,664	$1,726	$1,764	
Rate Base Growth		20.9%	12.2%	4.9%	3.7%	2.3%	

2020 EARNINGS GUIDANCE

Diluted Earnings Per Share	2019 EPS by Segment	2020 Guidance February 17, 2020		2020 Guidance May 5, 2020		2020 Guidance August 3, 2020	
		Low	High	Low	High	Low	High
Electric	$1.48	$1.67	$1.70	$1.65	$1.70	$1.67	$1.70
Manufacturing	$0.32	$0.31	$0.35	$0.14	$0.23	$0.15	$0.23
Plastics	$0.51	$0.43	$0.47	$0.43	$0.47	$0.50	$0.54
Corporate	($0.14)	($0.19)	($0.15)	($0.22)	($0.15)	($0.22)	($0.17)
Total	$2.17	$2.22	$2.37	$2.00	$2.25	$2.10	$2.30
Return on Equity	11.6%	11.0%	11.7%	9.9%	11.1%	10.4%	11.4%

OTTER TAIL CORPORATION

Pension Exposure

Funded Status	Asset Allocation			Actuarial Assumptions		EPS Sensitivity		Recovery	Projected Contributions (millions)		
Dec 31, 2019	Equity	Fixed Inc	Other	Dis Rate	LTROR	Dis Rate	LTROR	Mechanism	2020	2021	2022
85%	52%	45%	3%	3.47%	6.88%	25bps change - +/- $.02/share	25 bps change - +/- $.01	Mn - Historical 5 yr aveage ND - estimated expense SD - estimated expense	$ 11.20	$ 10.00	$ 10.00

INVESTMENT HIGHLIGHTS



INVESTMENT HIGHLIGHTS

Balanced Growth and Income Strategy

Strong and stable regulated electric operations provide cash flow to support dividends

Manufacturing businesses provide above-average earnings growth potential

Strong dividend yield

Strong returns on equity

Stable and Growing Utility Base

Competitive, low cost integrated electric operations

Regulated rate base capex over the next 5 years will drive growth

Investment opportunity in generation, transmission and renewables

Successful Manufacturing Businesses

Platform of companies enhances OTTR's earnings growth

Organic growth opportunities exist

Utilization of existing capacity

Operational excellence

Investment Grade Credit Quality

Investment grade senior unsecured credit ratings

Company is committed to maintaining investment grade credit ratings and will manage its operations in a way that reflects this commitment