# Q3 2024 Earnings Conference Call

November 5, 2024

OTTER TAIL CORPORATION

# *Forward-Looking Statement*

*Except for historical information contained here, the statements in this release are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "can," "could," "estimate," "expect," "future," "goal," "intend," "likely," "may," "outlook," "plan," "possible," "potential," "predict," "probable," "projected," "should," "target," "will," "would" and similar words and expressions are intended to identify forward-looking statements. Such statements are based upon the current beliefs and expectations of management. Forward-looking statements made herein, which may include statements regarding 2024 earnings and earnings per share, long-term earnings, earnings per share growth and earnings mix, anticipated levels of energy generation from renewable resources, anticipated reductions in carbon dioxide emissions, future investments and capital expenditures, rate base levels and rate base growth, future raw materials costs, future raw materials availability and supply constraints, future operating revenues and operating results, and expectations regarding regulatory proceedings, as well as other assumptions and statements, involve known and unknown risks and uncertainties that may cause our actual results in current or future periods to differ materially from the forecasted assumptions and expected results.*

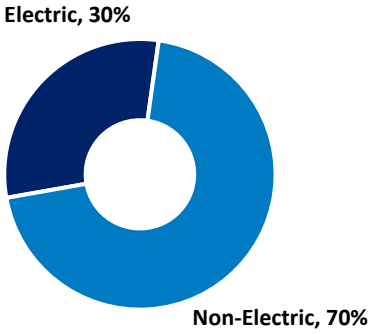
*The Company's risks and uncertainties include, among other things, uncertainty of future investments and capital expenditures; rate base levels and rate base growth; risks associated with energy markets; the availability and pricing of resource materials; inflationary cost pressures; attracting and maintaining a qualified and stable workforce; changing macroeconomic and industry conditions that impact the demand for our products, pricing and margin; long-term investment risk; seasonal weather patterns and extreme weather events; counterparty credit risk; future business volumes with key customers; reductions in our credit ratings; our ability to access capital markets on favorable terms; assumptions and costs relating to funding our employee benefit plans; our subsidiaries' ability to make dividend payments; cybersecurity threats or data breaches; the impact of government legislation and regulation including foreign trade policy and environmental; health and safety laws and regulations; changes in tax laws and regulations; the impact of climate change including compliance with legislative and regulatory changes to address climate change; expectations regarding regulatory proceedings, including state utility commission approval of resource plans, assigned service areas, the siting and construction of major facilities, capital structure, and allowed customer rates; actual and threatened claims or litigation; and operational and economic risks associated with our electric generating and manufacturing facilities. These and other risks are more fully described in our filings with the Securities and Exchange Commission, including our most recently filed Annual Report on Form 10-K, as updated in subsequently filed Quarterly Reports on Form 10-Q, as applicable. Forward-looking statements speak only as of the date they are made, and we expressly disclaim any obligation to update any forward-looking information.*

# Company Overview

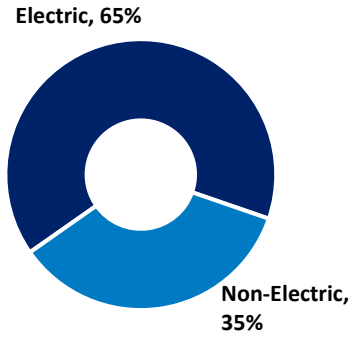
OTTER TAIL CORPORATION

- **ELECTRIC PLATFORM**
  - OTTER TAIL POWER COMPANY
- **MANUFACTURING PLATFORM**
  - **MANUFACTURING SEGMENT**
    - BTD
    - T.O. PLASTICS
  - **PLASTICS SEGMENT**
    - northern pipe products
    - VINYLTECH VT PVC • PIPE

**Expected 2024 Earnings Mix**




**Long Term Earnings Mix Target**




**Electric Platform Highlights**

- Attractive rate base growth
- Constructive regulatory environments
- Affordable customer rates

**Manufacturing Platform Highlights**

- Enhanced consolidated ROE
- Organic growth opportunities
- Diversified end markets

# Financial Summary and Highlights

| (in millions, except per share data) | *Q3 2024* | *Q3 2023* |
|---|---|---|
| Operating Revenues | $ 338.0 | $ 358.1 |
| Net Income | $ 85.5 | $ 92.0 |
| Diluted EPS | $ 2.03 | $ 2.19 |

**Midpoint of 2024 Earnings Guidance Increased to $7.07 from $6.92**

**Q3 2024 Diluted EPS** — **Down 7%**

- Strong Electric segment performance, offset by lower Plastics and Manufacturing segment earnings

**Electric** segment earnings — **Up 16%**

- Impact of interim rate increase in North Dakota and favorable weather and higher transmission and rider revenue, partially offset by higher interest and depreciation expense

**Manufacturing** segment earnings — **Down 71%**

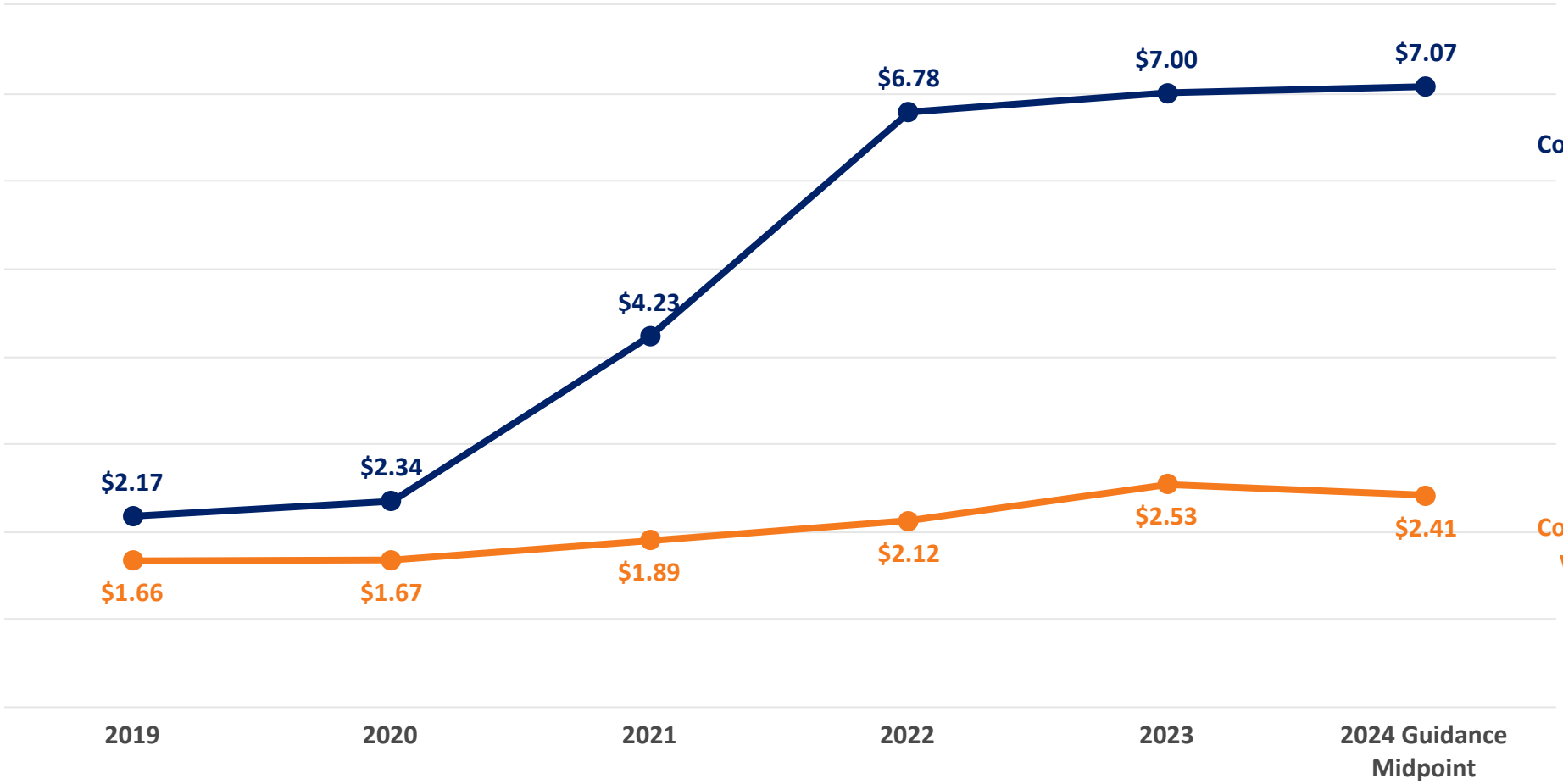
- Lower sales volumes and profit margins, partially offset by lower SG&A expense

**Plastics** segment earnings — **Down 8%**

- Decreased profit margins driven by lower sales prices of PVC pipe, partially offset by higher sales volumes

**2024 Indicated Dividend of $1.87 Per Share** — **Up 6.9%**

# Earnings Per Share Growth




***26.6%***
**Consolidated EPS**
***(5YR CAGR)***

***7.7%***
**Consolidated EPS w/o Plastics***
***(5YR CAGR)***

**Consolidated EPS w/o Plastics is a non-GAAP financial measure management uses to assess the financial results of the business exclusive of the impact of the earnings generated by our Plastics segment which have benefited from favorable industry conditions*

# Electric Platform



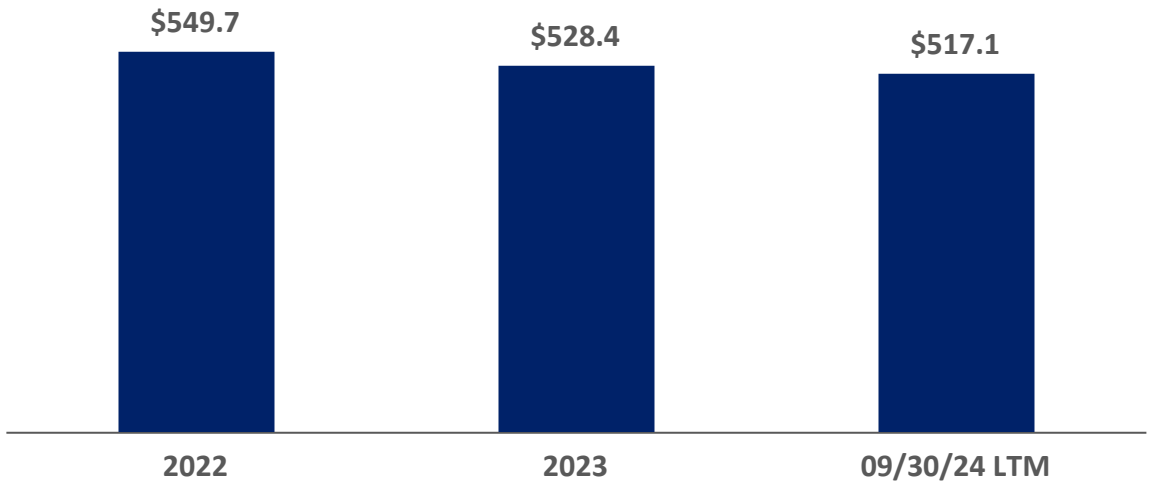
# Electric Operations

- Vertically integrated, regulated utility with generation, transmission and distribution facilities
- Serve more than 133,000 residential, commercial and industrial customers
- Service area encompasses approximately 70,000 square miles of western Minnesota, eastern North Dakota and northeastern South Dakota

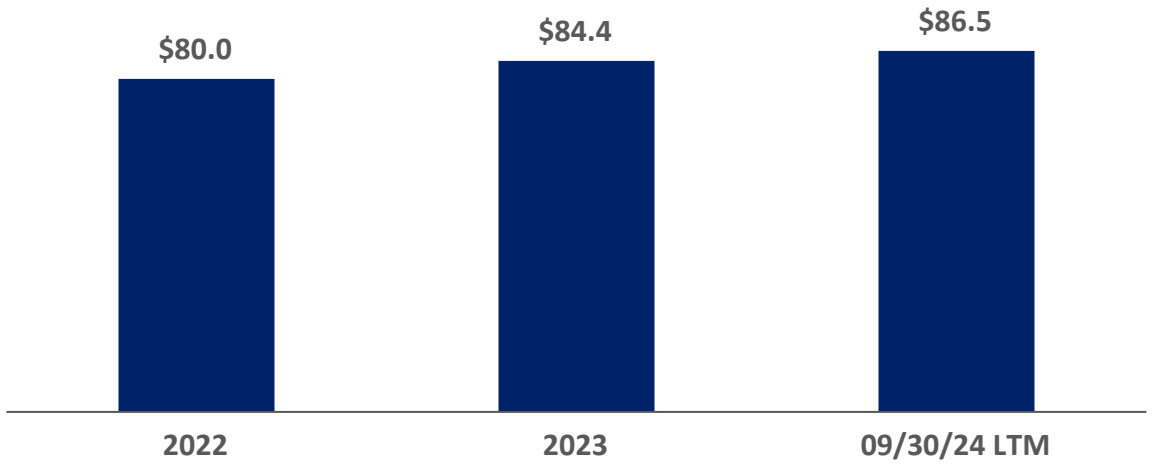
## Highlights

- Significant rate base growth opportunities in the 5-year planning period and beyond, including:
  - Renewable generation and storage
    - Wind repowering
    - Up to 300 MW of solar generation, 200 MW of wind generation and 75 MW of battery storage
  - Transmission investment
    - MISO Long Range Transmission Planning (LRTP)
    - Joint Targeted Interconnection Queue (JTIQ)
  - Technology and infrastructure
    - Advanced metering infrastructure
- Opportunity for potential new large loads
- Constructive regulatory environments
- Electric rates significantly below national and regional averages

**Operating Revenue (in millions)***




**Net Income (in millions)**




** Operating revenues have decreased due to the pass-through of lower energy costs and higher tax credits*

# Multiple Opportunities to Drive Load Growth

## Otter Tail Power is Well Positioned to Address Incremental Opportunity Through:

Long-standing, approved tariffs for large commercial loads

Locations have been identified with high reliability and minimal delivery costs to site to support large loads

Operating in attractive service territory which has historically had low energy prices and high renewable production

Limited adjustments currently made to our load growth projections

Load growth opportunity primary driven by…

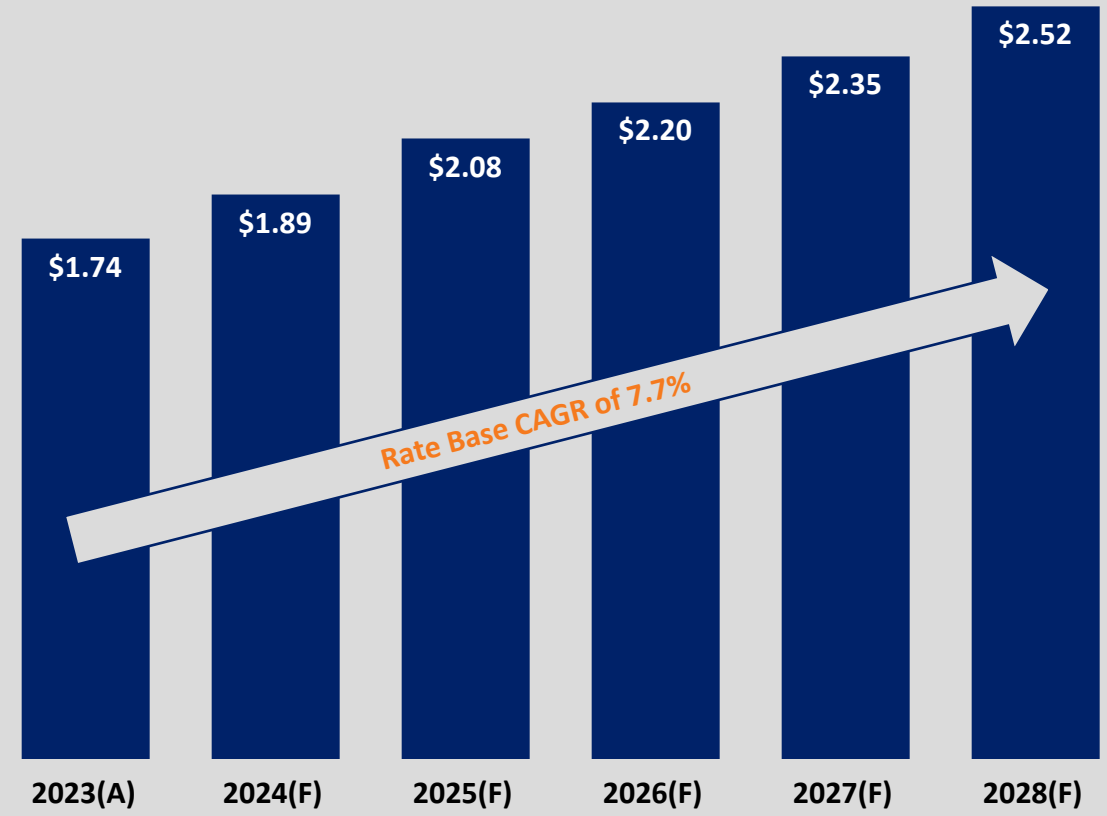
- **Data Centers**
- **Crypto Mining**
- **Clean Fuel**
- **Agriculture Processing**

Actively evaluating and pursuing strategic opportunities while keeping current customer service and rates top of mind

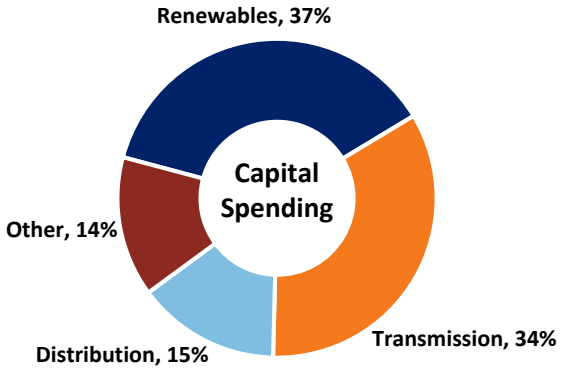
# Rate Base Growth

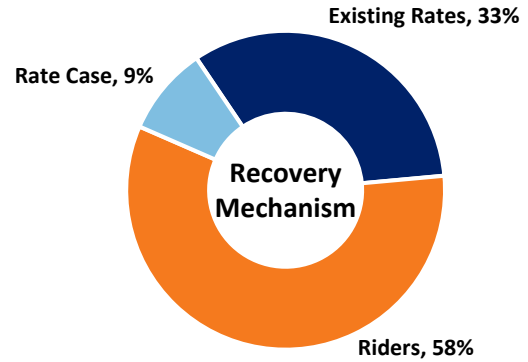
## Rate Base

*$ in billions*




## $1.3B of Capital Spending from 2024 to 2028




**2018 to 2023**

| 9% | | 9% |
|---|---|---|
| Rate Base Growth (CAGR) | *Translated To* | Earnings Growth (CAGR) |

# Advanced Metering Infrastructure (AMI)

| Project | AMI |
|---|---|
| Description | Transition to advanced meters |
| Est. Completion Date | 2025 |
| Otter Tail Power Investment | ~ $60 million |
| Recovery Mechanism | Approved riders |

## Project Summary

- Upgrading more than 170,000 electric meters that enables automated meter reading; ~ 90% of meters have been upgraded
- AMI lays the groundwork for improved outage response and two-way communication with our systems
- Infrastructure integrates data and systems, allowing us to better understand peak energy use and offer energy and cost-saving options to customers
- Project expected to reduce operating expenses through technology enabled savings

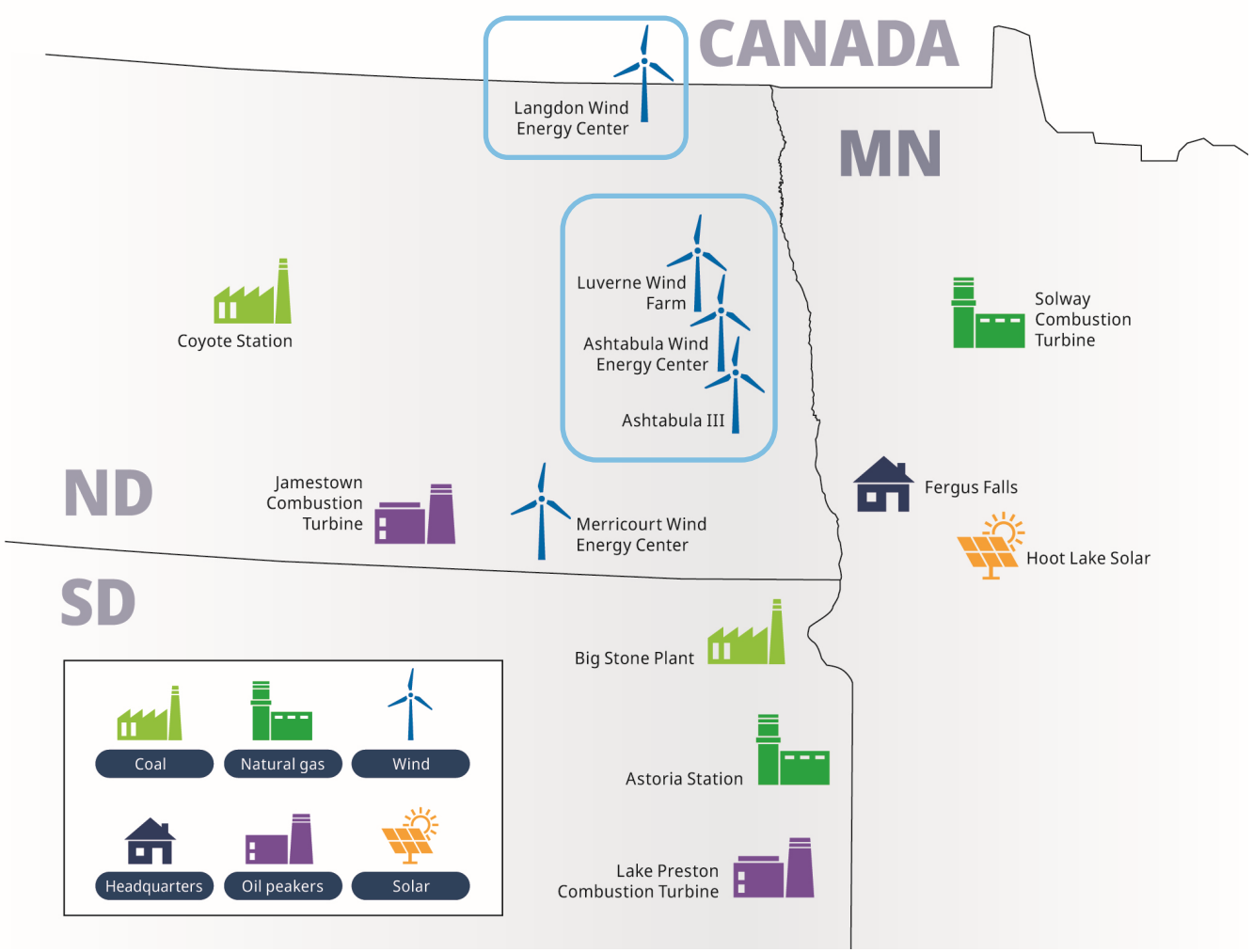


# Wind Repowering

| Project | Wind Repowering |
|---|---|
| Description | Equipment upgrades at wind facilities |
| Est. Completion Date | 2024 and 2025 |
| Otter Tail Power Investment | ~ $230 million |
| Recovery Mechanism | Approved riders |

## Project Summary

- Develop and perform equipment upgrades at the Langdon, Ashtabula, Luverne and Ashtabula III wind energy facilities
- Expect completion of wind repowering at Langdon in late 2024 and remaining sites in 2025
- Qualifies for IRA production tax credits
- Repowering is anticipated to lower customer bills through increased output and tax credits, demonstrating our continued focus and commitment to customer affordability



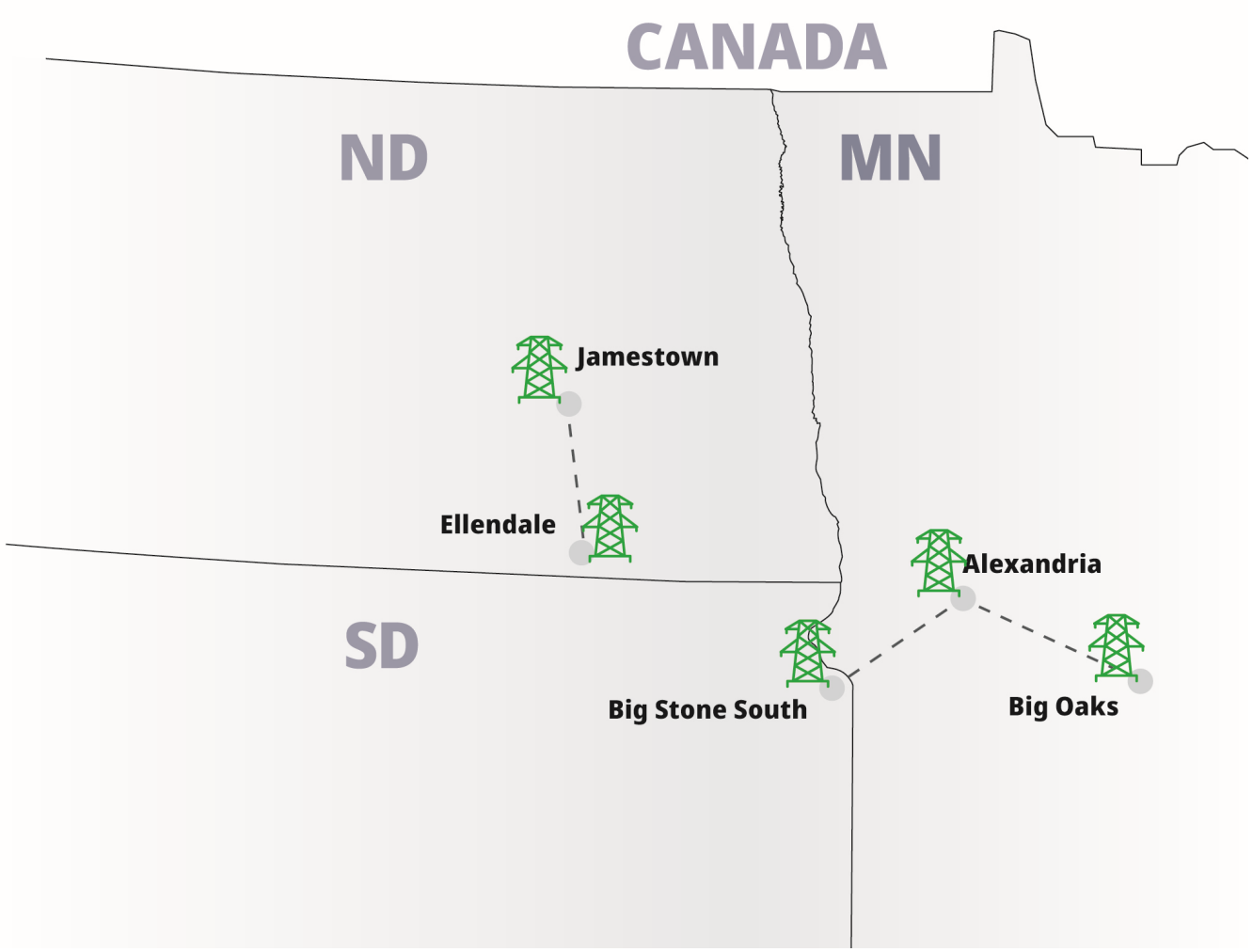

*Note: The map only depicts our material generation assets*

# MISO Long Range Transmission Planning (LRTP)

| Project | MISO LRTP |
|---|---|
| Description | LRTP Tranche 1 Transmission Projects |
| Est. Completion Date | 2032 |
| Otter Tail Power Investment | ~ $420 million |
| Recovery Mechanism | MISO Tariff |

## Project Summary

- MISO's approved Long Range Transmission Plan includes two 345 kV projects in Otter Tail Power's service territory
  - Jamestown - Ellendale
  - Big Stone South - Alexandria - Big Oaks
- Currently in development phase of these projects, including permitting and right of way related efforts
- Approximately 70% of the total capital investment is expected to occur before 2029



# Affordability

**Otter Tail Power's 2023 rates:**

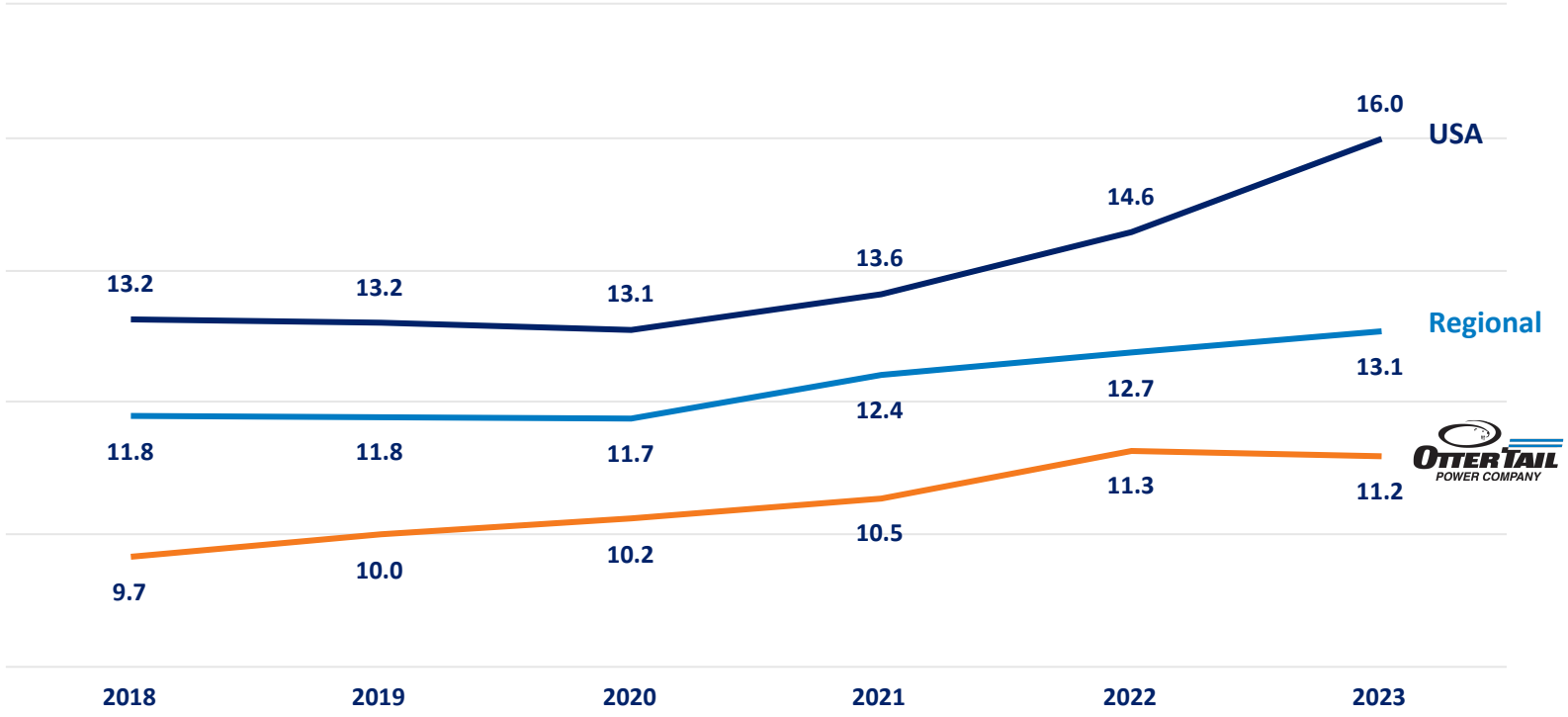
**15% below** regional average

**30% below** national average

**We expect to continue to keep customer bills low through:**

- Inflation Reduction Act tax credits
- MISO recovery of transmission investments
- Reducing purchase power costs with renewable generation additions
- Savings from technology enabled efficiencies

## Average Summer Residential Rate in Cents per kWh




*Source: Typical Bills and Average Rates Report, Edison Electric Institute*
*The report surveys typical electrical bills for investor-owned utility companies in the United States*

# Key Regulatory Matters

| Description | MN | ND | SD | Notes |
|---|---|---|---|---|
| General Rate Case | | X | | ND rate case filed: Nov-23<br>ND amended application filed: Jul-24<br>Evidentiary hearing before the ND Commission: Dec-24<br>Expect final outcome of ND rate case in early 2025 |
| Integrated Resource Plan | | X | | Informal hearing with ND Commission: Oct-24<br>Awaiting decision from ND Commission on IRP |
| Certificate of Need (CON) and Route Filings for MISO LRTP Projects | X | X | X | MN CON approved for Big Stone South - Alexandria portion of project<br>Estimate route and facility permits to be filed in MN, ND and SD, as applicable, throughout 2024 and 2025 |
| Renewable Eligibility Filing | X | | | Targeted filing date: Nov-24<br>Expect to receive decision on potential solar projects from MN Commission in second half of 2025 |
| Capital Recovery Riders | X | X | X | Annual updates to ensure timely recovery |

# North Dakota Rate Case

## North Dakota Rate Case

- Filed with the North Dakota Public Service Commission (NDPSC) in November 2023
- Amended rate case filing in July 2024 with the NDPSC, proposing to increase net revenues by approximately $23 million, or 10.9%
- Requested the following:
  - 10.6% return on equity (ROE) (current 9.77%)
  - 53.5% equity layer (current 52.5%)
- In December 2023, the NDPSC approved our request to implement interim rates on January 1, 2024, resulting in an average net increase of 6%. No changes will be made to interim rates due to amended filing
- Anticipate the final outcome of the case will occur in early 2025



# Regulatory Framework

| | Minnesota | North Dakota | South Dakota |
|---|---|---|---|
| **Renewable Generation** | Rider Recovery | Rider Recovery | Phase-In Rider |
| **Transmission Projects** | Rider Recovery | Rider Recovery | Rider Recovery |
| **Non-Renewable Generation** | Rate case | Rider or Rate Case | Phase-In Rider |
| **Customer and Distribution Technology** | Rider Recovery | Rider Recovery | Phase-In Rider |
| **Cost of Energy Recovery Adjustment** | Annually | Monthly | Monthly |
| **Revenue Adjustments due to Weather or Load Changes** | Decoupling Mechanism | Filed for Revenue Adjustment for Load Changes | Adjustment in Phase-In Rider for Specific Load |
| **Allowed ROE** | 9.48% | 9.77% | 8.75% |

*Generally, rider recovery is incorporated into base rate recovery during the next general rate review*

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

**We plan to recover approximately 90% of our 5-year capital expenditures through existing riders, rates, MISO tariffs and direct billings to non-OTP customers**

# Manufacturing Platform












# Manufacturing Operations

- Contract metal fabrication – stamping, machining, tube bending, tool & die, laser cutting, welding, painting, assembly. A one stop shop for customer needs
- Growth opportunities with existing customer base and expansion with new customers
- Ability to pass through commodity exposure to customers

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

## Highlights

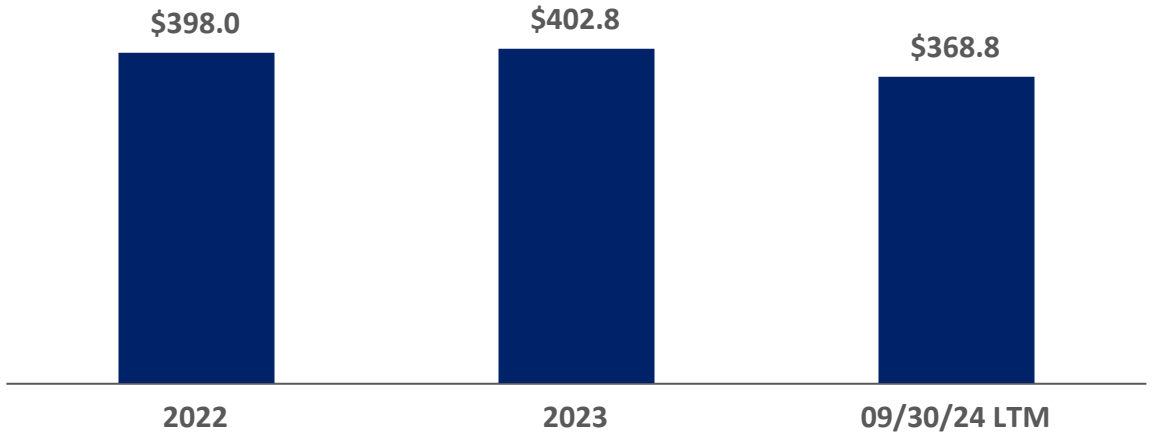
**BTD**

- Experiencing end market demand related headwinds, primarily within the recreational vehicle, agriculture, construction and lawn and garden end markets, resulting in lower sales volumes
- Georgia expansion project underway, and expect to complete the project in early 2025. Estimate capacity addition to support up to $35M in annual revenue

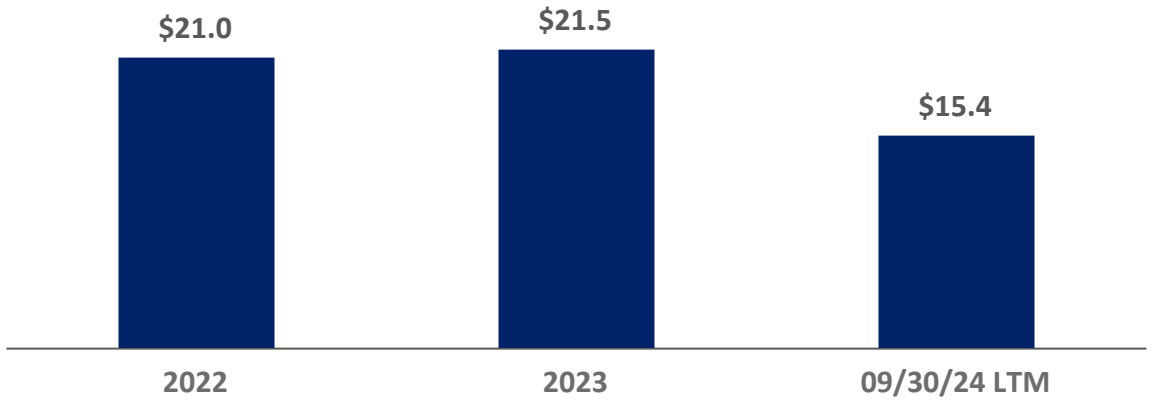
**T.O. Plastics**

- Decreased horticulture sales volumes due to increased import competition and customers and distributors tightly managing their inventory levels

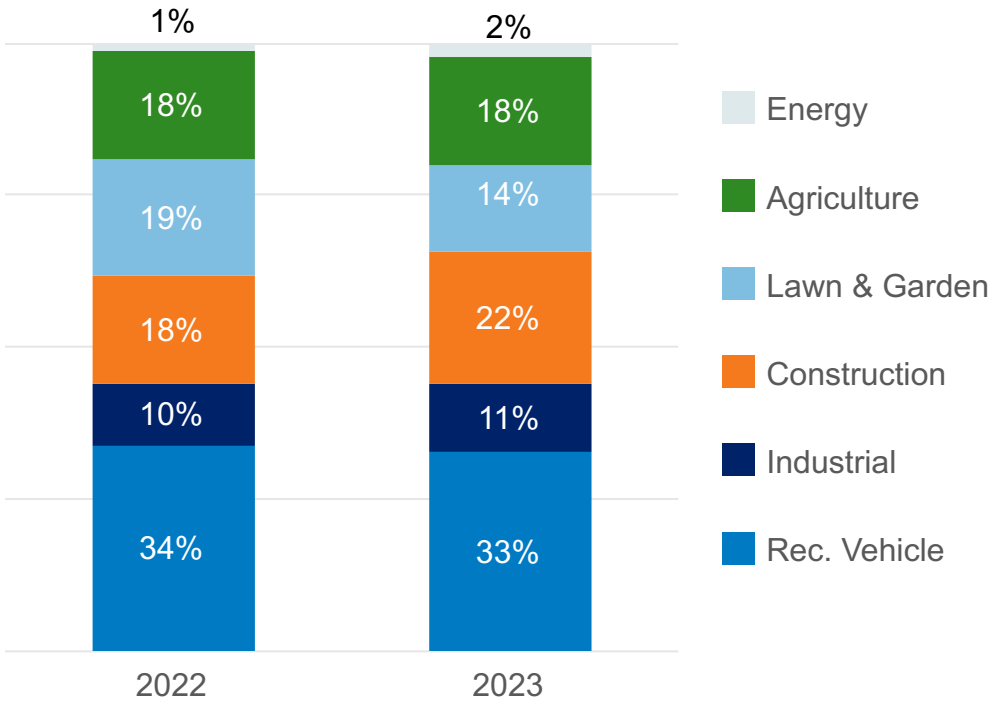
**Operating Revenue (in millions)**



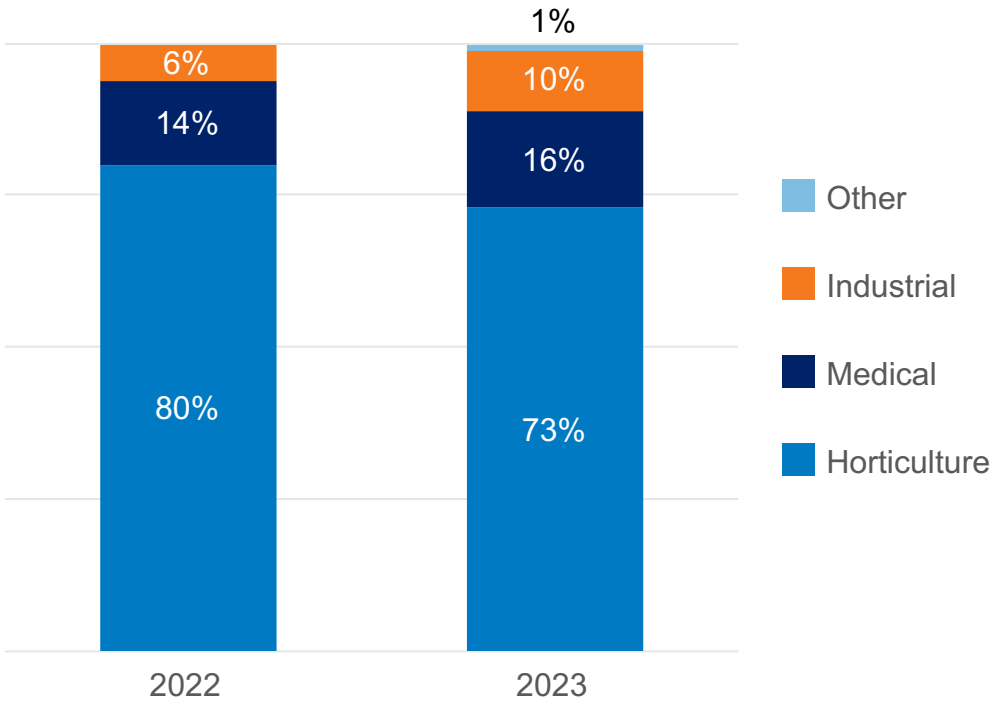

**Net Income (in millions)**



# Manufacturing Sales by End Market




BTD




T.O. PLASTICS

# End Market Outlook - Manufacturing Segment

| End Market | 2024 Outlook | Comments |
|---|---|---|
| **BTD Manufacturing** | | |
| Recreational Vehicles (ATVs, UTVs, etc.) |  | • Dealer inventory is up, negatively impacting production<br>• Decreased discretionary spending due to inflation and higher interest rates |
| Lawn & Garden |  | • Residential demand has softened<br>• Decreased discretionary spending |
| Construction |  | • Dealer inventory levels are higher<br>• Overall construction end-market forecasting a softness of ~ 10% |
| Agriculture |  | • Large agricultural volume is softening<br>• Small agricultural demand has softened ~ 15-30% |
| Power Generation *(component of Industrial end market)* |  | • Strong demand continues for commercial industry we serve<br>• Emergency back-up power for data centers driving demand |
| **T.O. Plastics** | | |
| Horticulture |  | • Distributors and growers' inventory levels have normalized<br>• Import market competition, and end-user demand forecasted to be flat to down |

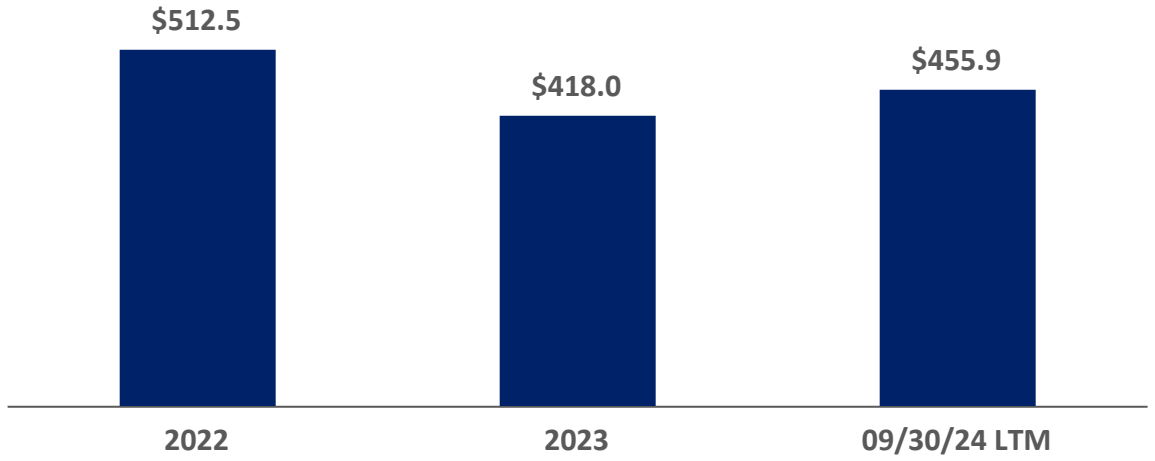
# Plastics Operations

- Manufactures and sells polyvinyl chloride (PVC) pipe to distributors. Pipe is used in municipal water, rural water, wastewater and storm drainage systems
- Companies located in Fargo, ND & Phoenix, AZ
- Approximate combined production capacity of 350M lbs. of PVC

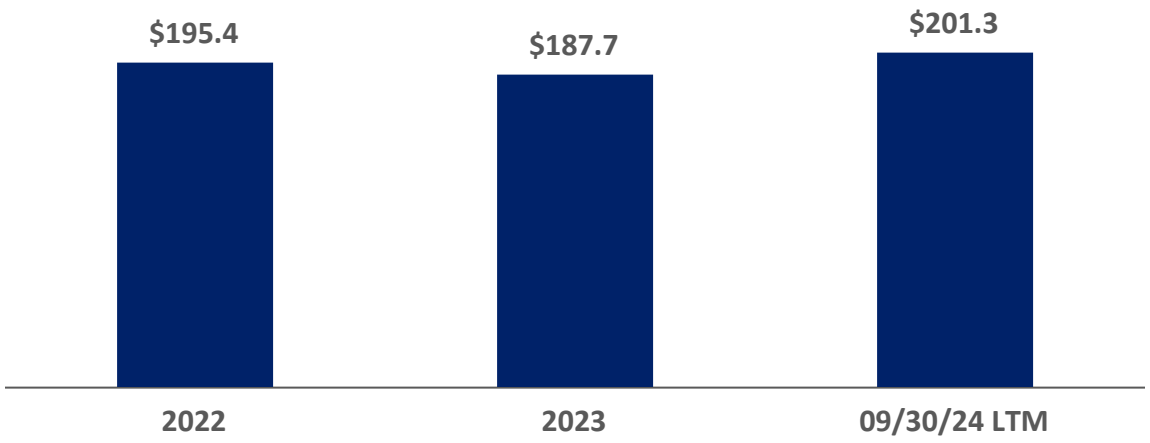
## Highlights

- Higher sales volumes driven by customers sales volume growth and distributor and end market demand, offset by lower sales prices
- Sales prices continue to decline but at a slower rate than expected
- Vinyltech upgrades and expansion projects underway
  - Expect to add 26 million pounds of large diameter capacity in late 2024
  - In early 2026, expect to bring another line online and add another 26 million pounds of capacity

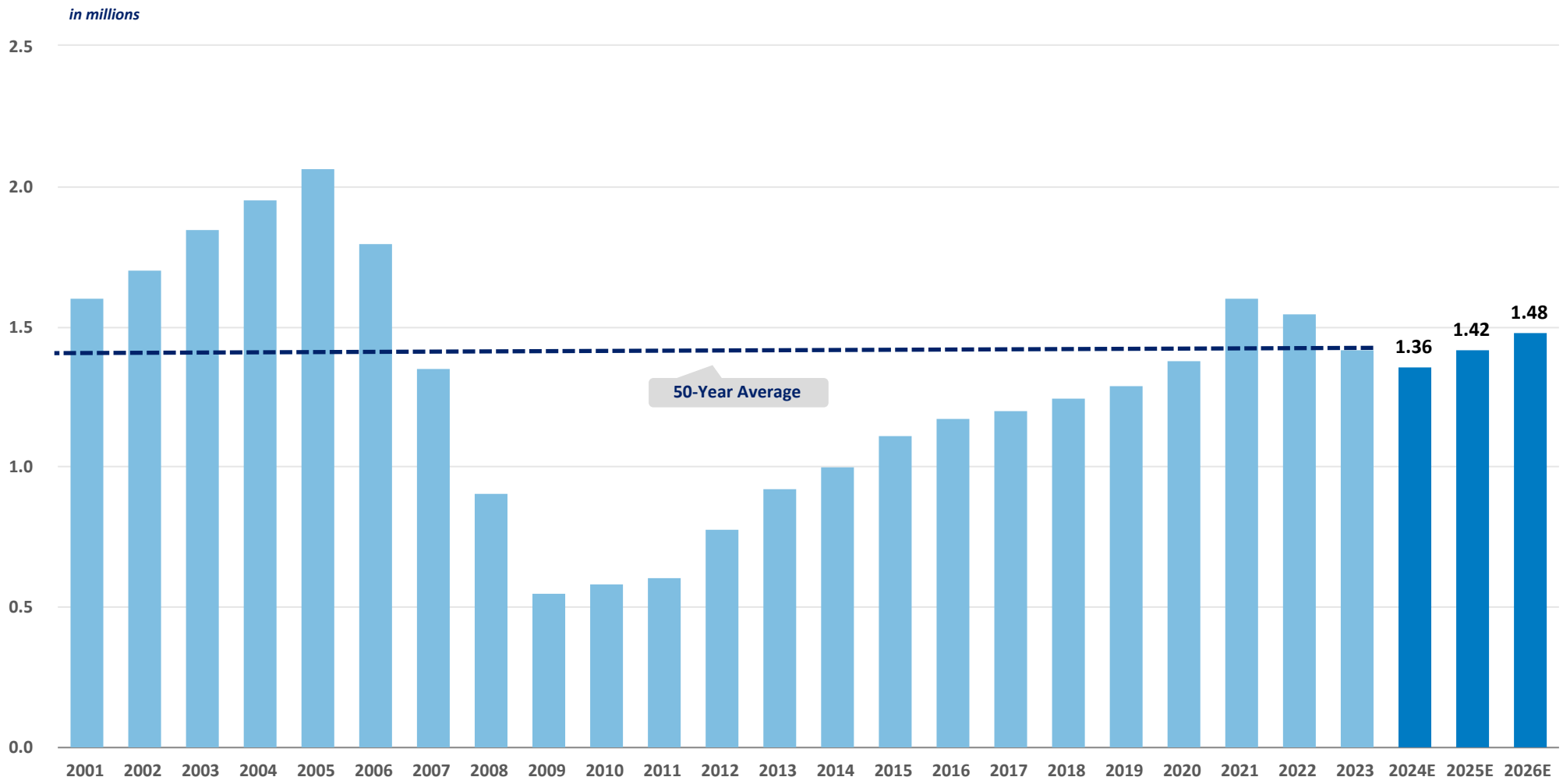
**Operating Revenue (in millions)**




**Net Income (in millions)**



# Annual U.S. Housing Starts




*Source: U.S. Census Bureau, U.S. Department of Commerce and Wells Fargo Economics*

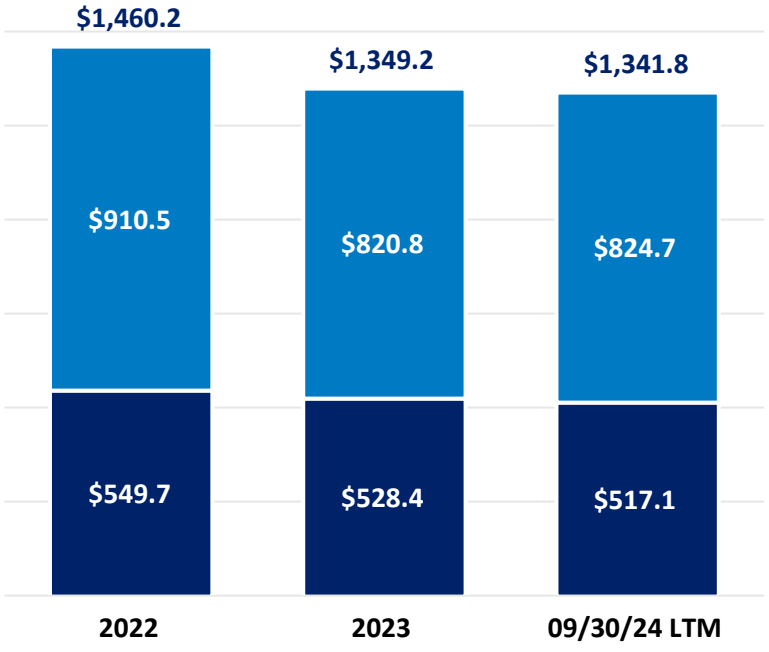
# FINANCIAL UPDATE

# Financial Overview

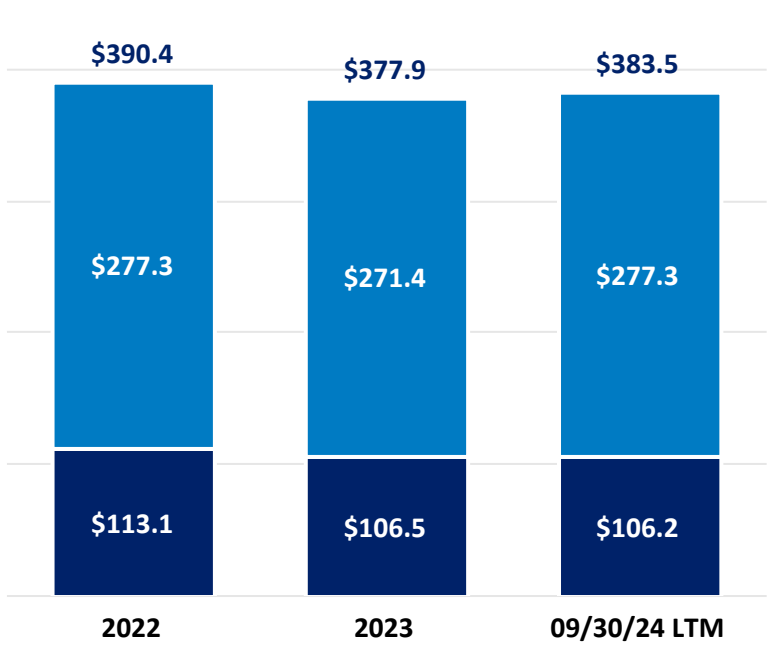
*Elevated Plastics segment earnings impacting Operating Income & Net Income in all periods presented*

*$ in millions*

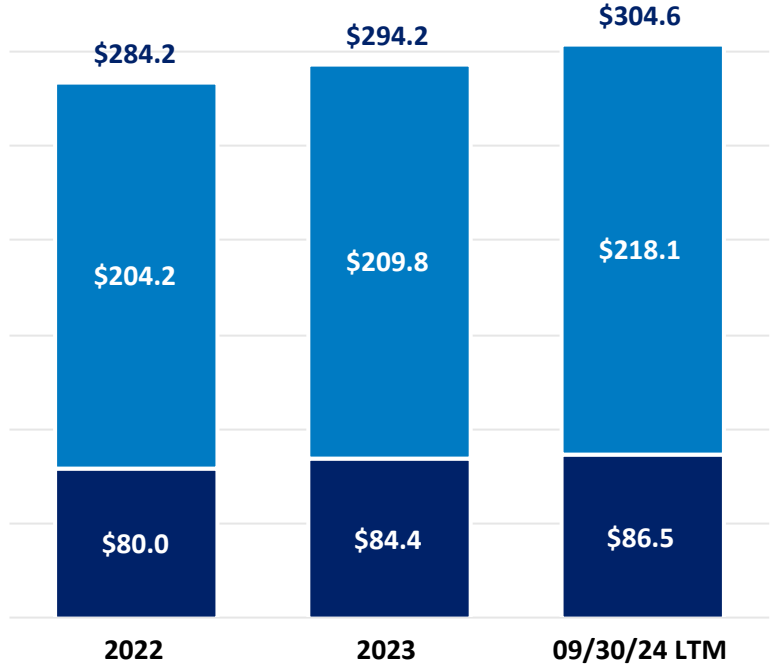
## Operating Revenues




## Operating Income




## Net Income




Electric Platform

Manufacturing Platform
*(incl. unallocated corporate costs)*

# Diluted EPS: Q3 2023 vs Q3 2024

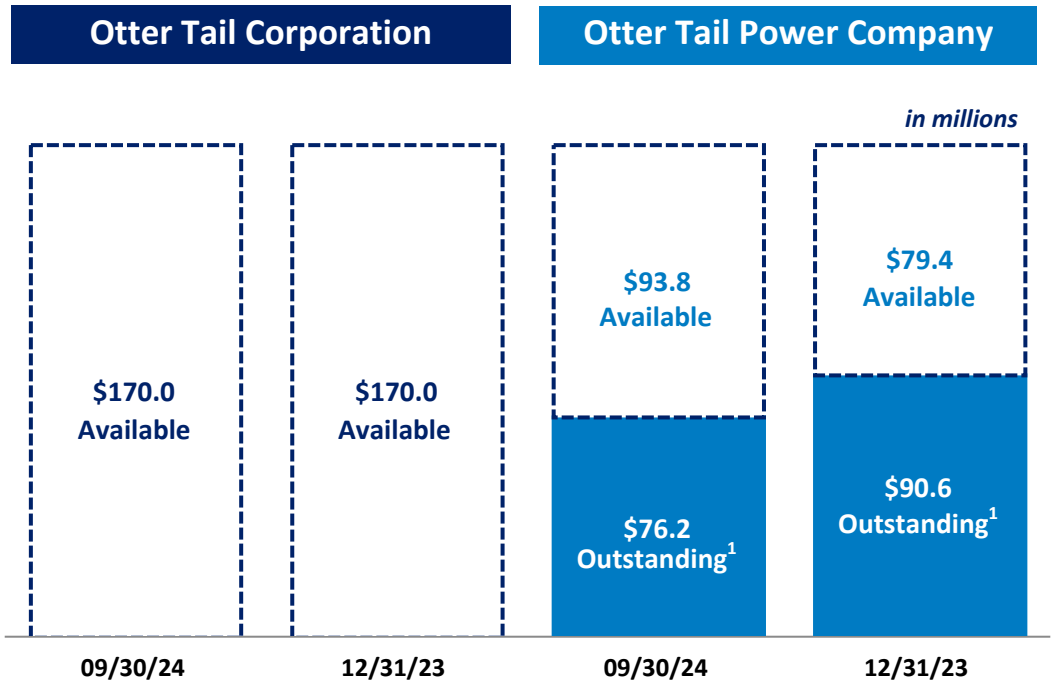
| | | Electric | Manufacturing | Plastics | Corporate | Total |
|---|---|---|---|---|---|---|
| | **Q3 2023 DILUTED EARNINGS PER SHARE** | **$ 0.58** | **$ 0.18** | **$ 1.41** | **$ 0.02** | **$ 2.19** |
| **Electric** | ND interim revenue | 0.08 | — | — | — | 0.08 |
| | Transmission revenue | 0.03 | — | — | — | 0.03 |
| | Rider revenue | 0.02 | — | — | — | 0.02 |
| | Impact of favorable weather | 0.02 | — | — | — | 0.02 |
| | Interest expense | (0.03) | — | — | — | (0.03) |
| | Depreciation expense and property taxes | (0.02) | — | — | — | (0.02) |
| **Manufacturing** | SG&A expense | — | 0.05 | — | — | 0.05 |
| | Sales volume | — | (0.05) | — | — | (0.05) |
| | Manufacturing cost | — | (0.05) | — | — | (0.05) |
| | Product pricing and mix | — | (0.04) | — | — | (0.04) |
| | Scrap revenue | — | (0.02) | — | — | (0.02) |
| | Other | — | (0.02) | — | — | (0.02) |
| **Plastics** | Sales volume | — | — | 0.19 | — | 0.19 |
| | Product pricing | — | — | (0.27) | — | (0.27) |
| | SG&A expense | — | — | (0.04) | — | (0.04) |
| **Corporate** | Investment income | — | — | — | 0.04 | 0.04 |
| | Gains on COLI policies | — | — | — | 0.03 | 0.03 |
| | SG&A expense | — | — | — | (0.08) | (0.08) |
| | **Q3 2024 DILUTED EARNINGS PER SHARE** | **$ 0.68** | **$ 0.05** | **$ 1.29** | **$ 0.01** | **$ 2.03** |

# Diluted EPS: YTD 2023 vs YTD 2024

| | | Electric | Manufacturing | Plastics | Corporate | Total |
|---|---|---|---|---|---|---|
| | **YTD 2023 DILUTED EARNINGS PER SHARE** | **$ 1.60** | **$ 0.48** | **$ 3.53** | **$ 0.02** | **$ 5.63** |
| **Electric** | ND interim revenue | 0.20 | — | — | — | 0.20 |
| | Sales volume | 0.05 | — | — | — | 0.05 |
| | Rider revenue | 0.04 | — | — | — | 0.04 |
| | O&M expense | 0.03 | — | — | — | 0.03 |
| | AFUDC equity | 0.02 | — | — | — | 0.02 |
| | Impact of unfavorable weather | (0.15) | — | — | — | (0.15) |
| | Depreciation expense and property taxes | (0.07) | — | — | — | (0.07) |
| | Transmission revenue | (0.02) | — | — | — | (0.02) |
| | Interest expense | (0.05) | — | — | — | (0.05) |
| **Manufacturing** | Product pricing and mix | — | 0.07 | — | — | 0.07 |
| | SG&A expense | — | 0.06 | — | — | 0.06 |
| | Sales volume | — | (0.14) | — | — | (0.14) |
| | Manufacturing cost | — | (0.08) | — | — | (0.08) |
| | Scrap revenue | — | (0.03) | — | — | (0.03) |
| | Other | — | (0.02) | — | — | (0.02) |
| **Plastics** | Sales volume | — | — | 1.07 | — | 1.07 |
| | Product pricing | — | — | (0.69) | — | (0.69) |
| | SG&A expense | — | — | (0.06) | — | (0.06) |
| **Corporate** | Investment income | — | — | — | 0.09 | 0.09 |
| | Income tax benefit | — | — | — | 0.02 | 0.02 |
| | SG&A expense | — | — | — | (0.10) | (0.10) |
| | **YTD 2024 DILUTED EARNINGS PER SHARE** | **$ 1.65** | **$ 0.34** | **$ 3.85** | **$ 0.03** | **$ 5.87** |

# Liquidity, Cap Structure and Credit Ratings

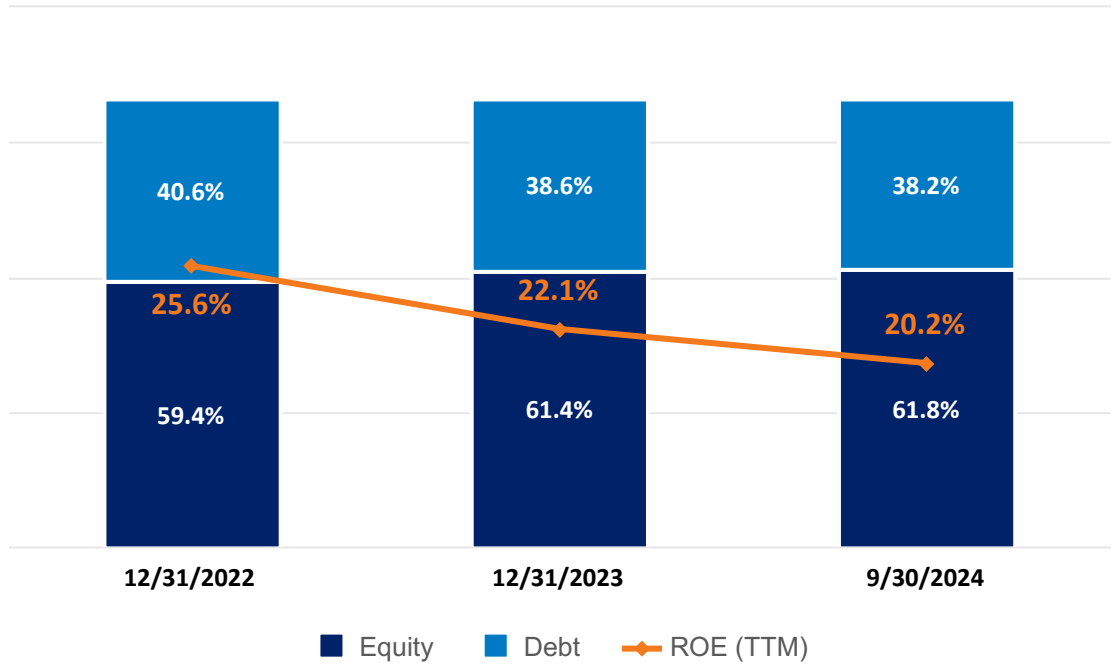
## Liquidity: Line of Credit Availability




[1]*Amounts include outstanding letters of credit*

*Expiration Date: October 29, 2027*

## Consolidated Capital Structure & ROE




## Credit Ratings

| | Otter Tail Corporation | | | Otter Tail Power Company | | |
|---|---|---|---|---|---|---|
| | Moody's | Fitch | S&P | Moody's | Fitch | S&P |
| Corporate Credit / Long-Term Issuer Default | Baa2 | BBB | BBB | A3 | BBB+ | BBB+ |
| Senior Unsecured Debt | N.A. | BBB | N.A. | N.A. | A- | N.A. |
| *Outlook* | Stable | Stable | Stable | Negative | Stable | Stable |
| *Date of Last Review* | *Jul. 2024* | *Sep. 2023* | *Jan. 2024* | *Jul. 2024* | *Sep. 2023* | *Sep. 2023* |

# 2024 Earnings Guidance

| *Diluted EPS* | *Actual 2023* | *2024 Guidance August 5, 2024* | | *2024 Guidance November 4, 2024* | |
|---|---|---|---|---|---|
| | | *Low* | *High* | *Low* | *High* |
| **Electric** | **$ 2.01** | **$ 2.13** | **$ 2.17** | **$ 2.13** | **$ 2.17** |
| **Manufacturing** | **0.51** | **0.36** | **0.40** | **0.30** | **0.34** |
| **Plastics** | **4.47** | **4.35** | **4.54** | **4.61** | **4.70** |
| **Corporate** | **0.01** | **(0.07)** | **(0.04)** | **(0.07)** | **(0.04)** |
| **Total** | **$ 7.00** | **$ 6.77** | **$ 7.07** | **$ 6.97** | **$ 7.17** |
| ***Return on Equity*** | ***22.1 %*** | ***18.3 %*** | ***19.0 %*** | ***18.8 %*** | ***19.3 %*** |

# Capital Expenditures

| *in millions* | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | Total 2024-2028 |
|---|---|---|---|---|---|---|---|
| **Electric Segment** | | | | | | | |
| Renewables | | $ 118 | $ 93 | $ 33 | $ 113 | $ 129 | $ 486 |
| Transmission | | 51 | 85 | 111 | 98 | 100 | 445 |
| Distribution | | 38 | 39 | 36 | 38 | 39 | 190 |
| Other | | 67 | 37 | 30 | 27 | 25 | 186 |
| **Electric Segment Total** | $ 241 | $ 274 | $ 254 | $ 210 | $ 276 | $ 293 | $ 1,307 |
| **Manufacturing & Plastics Segments** | 46 | 79 | 35 | 27 | 25 | 26 | 192 |
| **Total Capital Expenditures** | **$ 287** | **$ 353** | **$ 289** | **$ 237** | **$ 301** | **$ 319** | **$ 1,499** |
| Electric Segment Average Rate Base | $ 1,742 | $ 1,890 | $ 2,080 | $ 2,200 | $ 2,350 | $ 2,520 | |
| Rate Base Growth | | 8.5 % | 10.1 % | 5.8 % | 6.8 % | 7.2 % | |

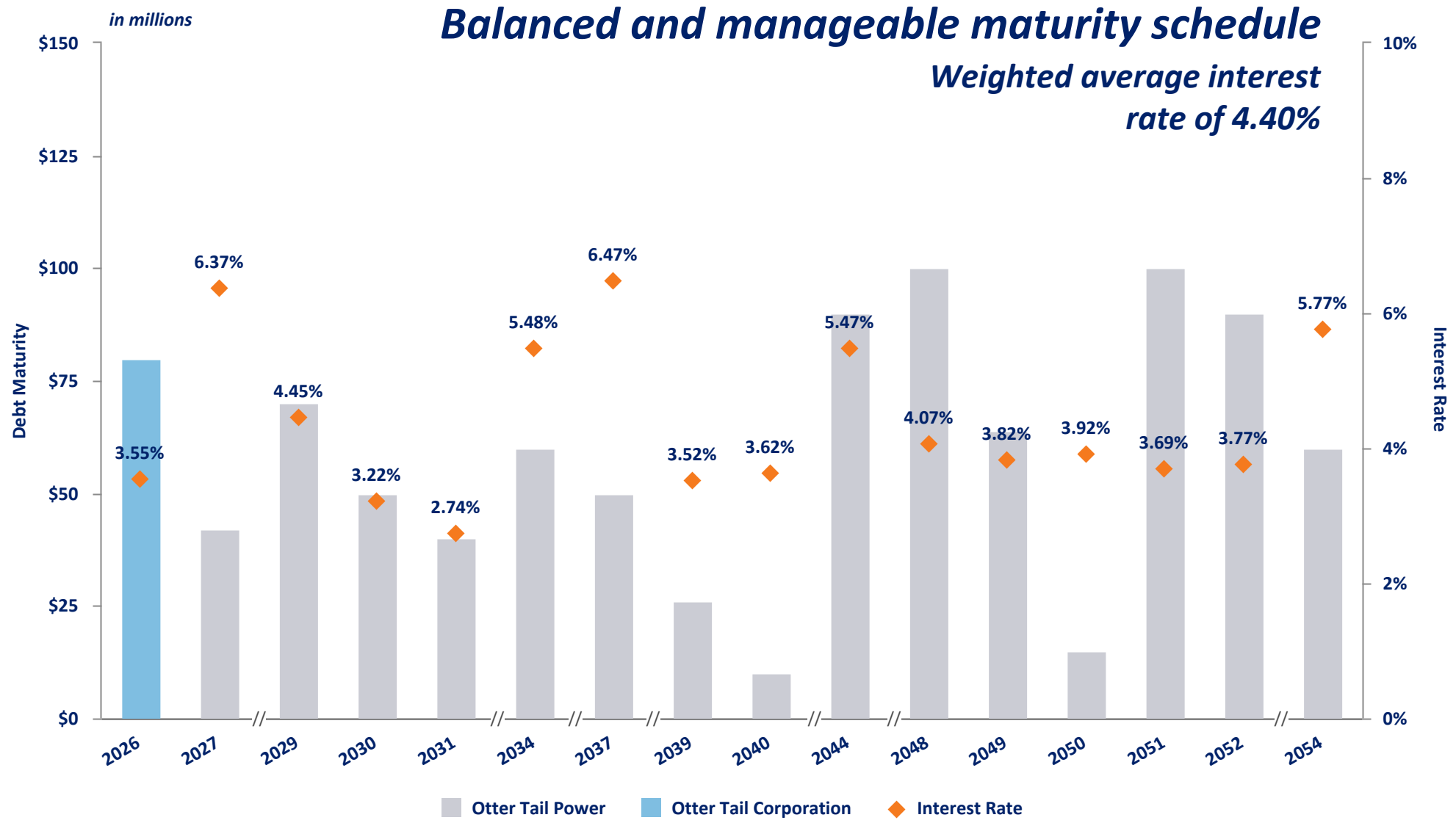
**Rate Base CAGR = 7.7%**

# Five Year Financing Plan

*$ in millions*

| | Long-Term Financing | |
|---|---|---|
| | **2024** (Actual) | **2025-2028** (Planned) |
| **LONG-TERM DEBT** | | |
| **Otter Tail Power** | | |
| Issuances | $ 120 | $ 420 |
| Retirements | — | (42) |
| **Otter Tail Corporation (Parent)** | | |
| Issuances | — | — |
| Retirements | — | (80) |
| **Net Debt Increase** | $ 120 | $ 298 |
| **EQUITY** | $ — | $ — |

# Bond Maturity Schedule

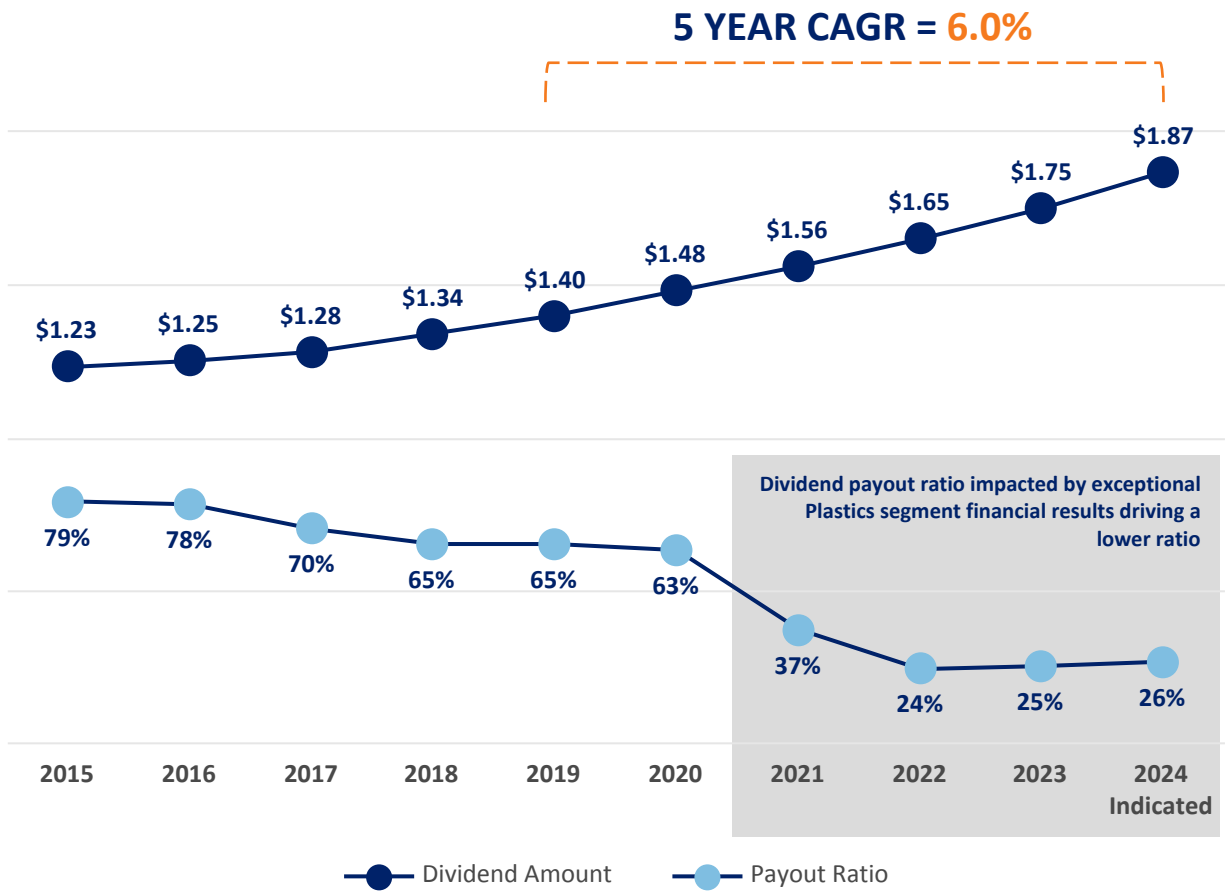


# History of Dividend Growth

## Our Dividend Story

- Paid annual dividend without interruption since 1938
- 6.9% increase, or $0.12 per share, indicated for 2024
- Strong balance sheet, ample liquidity, history of cash generation and enhanced shareholder returns

## Dividend Growth & Payout Ratio



# OTTR Investment Targets

**Total Shareholder Return**

**8-10%**

**Long-Term EPS Growth Rate**

**5-7%**

**Dividend Yield**

**~ 3%**

**Dividend Growth Rate**

**5-7%**

**(Targeted payout ratio 50-60%)**

## Balanced Growth and Income Strategy

- Attractive rate base growth at our electric utility with a proven track record of converting rate base growth into earnings growth
- Manufacturing and Plastics businesses provide opportunity for enhanced returns
- Above average returns on equity coupled with strong balance sheet, liquidity position and equity ratio

# Appendix

# Cleaner Energy Future

## By 2030, We are Targeting:

**55%**

Our owned and contracted energy generation will be 55% renewable

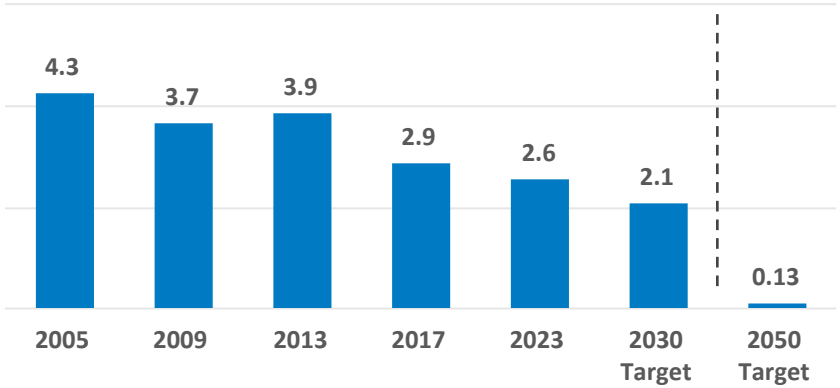
*(Does not include MISO market purchases)*

**50%**

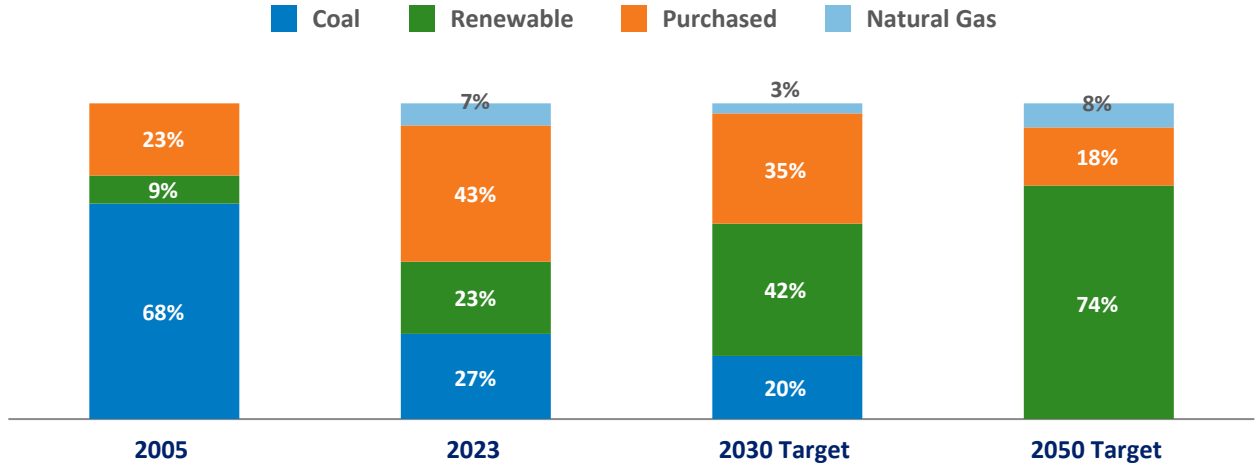
Our carbon emissions from owned generation resources will be 50% below 2005 levels

**Carbon emission targeted to be 97% below 2005 levels by 2050 on our owned generation**

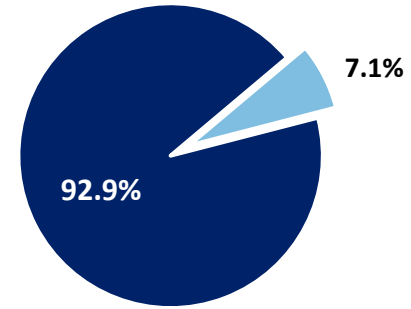
### Otter Tail Power Scope 1 CO2 Emissions (in million short tons)




### Otter Tail Power Energy Resource Mix




### 2023 Consolidated Revenues from Coal Assets




Revenue from Coal Assets

Revenue from Non-Coal Assets

*Note: Consolidated revenues include estimated returns on coal generation facility rate base investment, fuel expenses, O&M's, depreciation, property taxes, and coal conversion costs*

# Values in Action




**Safety** - We provide safe workplaces and require safe work practices

- Published an Occupational Health and Safety Policy, committing to:
  - Safety as our top priority;
  - Development of and training on safe work methods; and
  - Implementation of a safety program
- Our 2023 Total Recordable Incident Rate was 1.67 (peer benchmark 2.32)

**People** - We build respectful relationships and create inclusive environments, where all people can thrive

- Published a Human Rights Policy, honoring and protecting the rights of our employees while working with our suppliers to encourage healthy, safe and respectful workplaces
- 2023 Diversity, Equity and Inclusion data
  - Diverse and experienced board - 90% independent; 40% female; 10% racially and ethnically diverse; balanced tenure profile (30% 0-5 years; 20% 6-10 years; 50% > 10 years)
  - Total workforce diversity - 18% female; 18% diverse

**Community** - We improve the communities where we work and live

- In 2023, our two foundations gave nearly $1.2 million to strengthen our companies' communities
  - We focused our support on the following areas of emphasis: community, civic and cultural development, education, environment and health and human services




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