NEWS RELEASE

# Otter Tail Corporation Announces Record Quarterly Earnings, Increases 2023 Earnings Guidance, Board of Directors Declares Quarterly Dividend of $0.4375 per Share

2023-10-30

FERGUS FALLS, Minn.--(BUSINESS WIRE)-- Otter Tail Corporation (Nasdaq: OTTR) today announced financial results for the quarter ended September 30, 2023.

## SUMMARY

Compared to the quarter ended September 30, 2022:

- Consolidated operating revenues decreased 7% to $358 million.
- Consolidated net income increased 9% to $92 million.
- Diluted earnings per share increased 9% to $2.19 per share.

## CEO OVERVIEW

“Otter Tail Corporation, through the combined efforts of our employees and our diversified business model, delivered record setting quarterly earnings,” said President and CEO Chuck MacFarlane. Electric segment earnings were flat with the third quarter of 2022. Our Manufacturing segment produced earnings growth of 20 percent due to increased sales volumes and profit margins. Plastics segment earnings increased 6 percent primarily due to stronger operating margins as our sales price to resin spreads have improved compared to the third quarter of 2022.

“In August 2023, our 49 MW Hoot Lake Solar facility became fully operational. The project was completed and placed in service on time and on budget. Hoot Lake Solar was constructed on and near the retired Hoot Lake coal plant property in Fergus Falls, Minnesota and is the third largest operating solar site based on generation capacity in the state of Minnesota. With the completion of Hoot Lake Solar, we expect nearly 40 percent of Otter Tail Power’s owned and contracted energy generation will come from renewable resources.

“Otter Tail Power Company will file a request with the North Dakota Public Service Commission on November 2, 2023, for an increase in general rates in North Dakota. This request is largely driven by increases in our operating costs over the six years since our last rate case filing. We are proposing to increase net revenues by approximately $17 million, or 8.4 percent. Even with this increase, Otter Tail Power Company will continue to have some of the lowest rates in the country.

“We are increasing our 2023 diluted earnings per share guidance to a range of $6.76 to $6.96 from our previous range of $5.70 to $6.00. The increase in our guidance is primarily driven by stronger than expected Plastics segment earnings and revised expectations for the fourth quarter of the year.

“Our long-term focus remains unchanged - executing our strategy to grow our businesses and achieve operational, commercial and talent excellence to strengthen our position in the markets we serve. We believe our businesses are well-positioned to achieve these objectives and to deliver on our financial targets, including producing over the long-term a compounded annual growth rate in earnings per share of 5 to 7 percent based on an earnings mix of approximately 65 percent from our Electric segment and 35 percent from our Manufacturing and Plastics segments.”

## QUARTERLY DIVIDEND

On October 30, 2023, the corporation’s Board of Directors declared a quarterly common stock dividend of $0.4375 per share. This dividend is payable December 8, 2023 to shareholders of record on November 15, 2023.

## CASH FLOWS AND LIQUIDITY

Our consolidated cash provided by operating activities for the nine months ended September 30, 2023 was $318.5 million compared to $288.0 million for the nine months ended September 30, 2022. The increase was primarily due to the absence of a pension plan contribution in 2023 due to the plan's funded status, whereas a $20.0 million discretionary contribution was made in February 2022, and the timing of customer collections of forecasted fuel costs that will be adjusted in future periods. Increases to operating cash flows were partially offset by lower earnings. Investing activities for the nine months ended September 30, 2023 included capital expenditures of $229.8 million, primarily related to capital investments within our Electric segment including the purchase of the

Ashtabula III wind farm for $50.6 million and investments in our Hoot Lake Solar facility and wind repowering projects. Financing activities for the nine months ended September 30, 2023 included net proceeds from short-term borrowings of $43.3 million at Otter Tail Power and dividend payments of $54.8 million.

As of September 30, 2023, we had $170.0 million and $108.9 million of available liquidity under our Otter Tail Corporation and Otter Tail Power Credit Agreements, respectively, along with $189.2 million of available cash and cash equivalents, for total available liquidity of $468.1 million.

## SEGMENT PERFORMANCE

### Electric Segment

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| ($ in thousands) | 2023 | 2022 | Change | % Change |
| Operating Revenues | $ 130,326 | $ 142,747 | $ (12,421) | (8.7)% |
| Net Income | 24,565 | 24,847 | (282) | (1.1) |
| Retail MWh Sales | 1,300,324 | 1,275,051 | 25,273 | 2.0% |
| Heating Degree Days | 3 | 22 | (19) | (86.4) |
| Cooling Degree Days | 317 | 376 | (59) | (15.7) |

The following table shows heating degree days (HDDs) and cooling degree days (CDDs) as a percent of normal.

| | Three Months Ended September 30, | |
|---|---|---|
| | 2023 | 2022 |
| HDDs | 6.3% | 43.1% |
| CDDs | 92.2% | 108.4% |

The following table summarizes the estimated effect on diluted earnings per share of the difference in retail kilowatt-hour (kwh) sales under actual weather conditions and expected retail kwh sales under normal weather conditions in 2023 and 2022.

| | 2023 vs Normal | 2023 vs 2022 | 2022 vs Normal |
|---|---|---|---|
| Effect on Diluted Earnings Per Share | $ (0.01) | $ (0.02) | $ 0.01 |

Operating Revenues decreased $12.4 million primarily due to a $13.2 million decrease in fuel recovery revenues, a decrease in wholesale revenues, and the impact of unfavorable weather, partially offset by increased renewable rider revenue and higher commercial and industrial sales in North Dakota. The decrease in fuel recovery revenues was primarily due to lower purchased power and fuel costs arising from decreased market energy costs and natural gas prices. Wholesale revenues decreased due to a decrease in wholesale electric prices driven by decreased fuel costs. Renewable rider revenue increases included recovery of costs related to the Ashtabula III wind farm and our Hoot Lake Solar project.

Net Income decreased $0.3 million primarily due to the impact of unfavorable weather, increased depreciation expense, and increased operating and maintenance expenses, driven by higher labor costs and strategic spending initiatives, partially offset by increased rider revenue, increased commercial and industrial sales, and lower pension costs.

## Manufacturing Segment

| (in thousands) | Three Months Ended September 30, 2023 | 2022 | $ Change | % Change |
|---|---|---|---|---|
| Operating Revenues | $ 100,678 | $ 98,767 | $ 1,911 | 1.9% |
| Net Income | 7,446 | 6,219 | 1,227 | 19.7 |

Operating Revenues increased $1.9 million primarily due to an 8% increase in sales volumes at BTD Manufacturing driven by end market demand in the construction, recreational vehicle and power generation segments and incremental volumes from additional work with existing customers. Operating revenues also benefited from sales price increases implemented in response to labor and non-steel material cost inflation. Sales price increases and sales volume growth were partially offset by decreased steel prices, resulting in a 4% decrease in material costs, which are passed through to customers. Operating revenues at T.O. Plastics decreased primarily due to decreased sales volumes of horticulture products, as order and delivery lead times have normalized, and customers are working to reduce their inventory levels and return to more normal seasonal fluctuations.

Net Income increased $1.2 million primarily due to increased sales volumes and profit margins, as well as an increase in research and development tax credits at BTD, partially offset by decreased sales volumes at T.O. Plastics.

## Plastics Segment

| (in thousands) | Three Months Ended September 30, 2023 | 2022 | $ Change | % Change |
|---|---|---|---|---|
| Operating Revenues | $ 127,052 | $ 142,342 | $ (15,290) | (10.7)% |
| Net Income | 59,162 | 55,982 | 3,180 | 5.7 |

Operating Revenues decreased $15.3 million primarily due to an 11% decrease in sales prices compared to the same period last year. Sales prices have continued to decrease in the current year; however, they continue to remain elevated compared to pre-2021 levels. Sales volumes in the third quarter of 2023 were consistent with sales volumes during the same period last year.

Net Income increased $3.2 million primarily due to increased profit margins as our sales price to resin spreads improved compared to the third quarter of 2022. Resin and sales prices continued to decrease in the current year; however, the magnitude of sales price decreases was less than resin price declines. PVC resin and other input material costs decreased 39% compared to the same period last year as supply conditions improved, causing resin prices to decline over the last twelve months.

## Corporate

| (in thousands) | Three Months Ended September 30, 2023 | 2022 | $ Change | % Change |
|---|---|---|---|---|
| Net Income (Loss) | $ 801 | $ (2,809) | $ 3,610 | n/m |

Net Income (Loss) at our corporate cost center increased primarily due to decreased employee benefit expenses, including decreases in our employee health insurance claim costs and increased investment income earned on our short-term cash equivalent investments.

## 2023 BUSINESS OUTLOOK

We are increasing our 2023 diluted earnings per share range to $6.76 to $6.96. We expect our earnings mix in 2023, based on our updated guidance, to be approximately 30% from our Electric segment and 70% from our Manufacturing and Plastics segments, net of corporate costs. This anticipated mix deviates from our long-term expected earnings mix of approximately 65% Electric/35% non-electric as our Plastics segment continues to produce elevated earnings.

The segment components of our 2023 diluted earnings per share guidance compared with actual earnings for 2022 are as follows:

| | 2022 EPS by Segment | 2023 EPS Guidance July 31, 2023 | | 2023 EPS Guidance October 30, 2023 | |
|---|---|---|---|---|---|
| | | Low | High | Low | High |
| Electric | $ 1.91 | $ 2.00 | $ 2.04 | $ 2.01 | $ 2.04 |
| Manufacturing | 0.50 | 0.47 | 0.51 | 0.49 | 0.52 |
| Plastics | 4.66 | 3.40 | 3.59 | 4.34 | 4.45 |
| Corporate | (0.29) | (0.17) | (0.14) | (0.08) | (0.05) |
| Total | $ 6.78 | $ 5.70 | $ 6.00 | $ 6.76 | $ 6.96 |
| Return on Equity | 25.6% | 18.4% | 19.2% | 21.4% | 21.9% |

The following items contributed to our revised 2023 earnings guidance:

Electric Segment - We are tightening our range of expected earnings from our July 31, 2023 guidance and continue to expect our Electric segment to produce earnings growth of 6% over 2022.

Manufacturing Segment - We are increasing our Manufacturing segment guidance based on:

- The strength of third quarter earnings as sales volumes, margin improvement and tax credits drove earnings growth at BTD.
- Backlog for the manufacturing companies as of September 30, 2023 was approximately $107 million, compared with $141 million one year ago.

Plastics Segment - We are increasing our Plastics segment guidance based on:

- Continued strength in our product sales prices and related margins. While sales prices and margins have begun to recede from historic highs, the rate of decline continues to be slower than our previous expectations.
- Increased sales volume expectations as distributor inventory destocking is generally complete and demand has rebounded in advance of the seasonal decline anticipated in the latter part of the fourth quarter.

Corporate Costs - We are decreasing our Corporate cost guidance based on the following:

- The results in the third quarter of 2023 were better than expected due to higher balances of invested cash, higher yields on our cash investments and lower employee healthcare costs.
- Increased earnings on our cash balance investments over the remainder of the year due to a higher balance of invested funds and a higher yield.

## CONFERENCE CALL AND WEBCAST

The corporation will host a live webcast on Tuesday, October 31, 2023, at 10:00 a.m. CDT to discuss its financial and

operating performance.

The presentation will be posted on our website before the webcast. To access the live webcast, go to **www.ottertail.com/presentations** and select “Webcast.” Please allow time prior to the call to visit the site and download any software needed to listen in. An archived copy of the webcast will be available on our website shortly after the call.

If you are interested in asking a question during the live webcast, visit and follow the link provided in the press release announcing the upcoming conference call.

## FORWARD-LOOKING STATEMENTS

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,” “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 2023 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, 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, cyber security threats or data breaches, the impact of government legislation and regulation including foreign trade policy and environmental, health and safety laws and regulations, the impact of climate change including compliance with legislative and regulatory changes to address climate change, expectations regarding regulatory proceedings, 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.

Category: Earnings

About the Corporation: Otter Tail Corporation, a member of the S&P SmallCap 600 Index, has interests in diversified operations that include an electric utility and manufacturing businesses. Otter Tail Corporation stock trades on the Nasdaq Global Select Market under the symbol OTTR. The latest investor and corporate information is available at **www.ottertail.com**. Corporate offices are in Fergus Falls, Minnesota, and Fargo, North Dakota.

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OTTER TAIL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per-share amounts) | 2023 | 2022 | 2023 | 2022 |
| Operating Revenues | | | | |
| Electric | $ 130,326 | $ 142,747 | $ 395,997 | $ 404,112 |
| Product Sales | 227,730 | 241,109 | 638,856 | 754,688 |
| Total Operating Revenues | 358,056 | 383,856 | 1,034,853 | 1,158,800 |
| Operating Expenses | | | | |
| Electric Production Fuel | 19,603 | 24,972 | 45,928 | 54,538 |
| Electric Purchased Power | 10,895 | 19,913 | 57,932 | 64,604 |
| Electric Operating and Maintenance Expense | 43,534 | 39,799 | 134,604 | 126,460 |
| Cost of Products Sold (excluding depreciation) | 118,303 | 139,361 | 351,330 | 443,586 |
| Other Nonelectric Expenses | 15,863 | 16,524 | 51,433 | 50,981 |
| Depreciation and Amortization | 24,548 | 22,716 | 72,636 | 69,829 |
| Electric Property Taxes | 4,194 | 4,438 | 13,151 | 13,304 |
| Total Operating Expenses | 236,940 | 267,723 | 727,014 | 823,302 |
| Operating Income | 121,116 | 116,133 | 307,839 | 335,498 |
| Other Income and (Expense) | | | | |
| Interest Expense | (9,175) | (9,259) | (28,285) | (27,198) |
| Nonservice Components of Postretirement Benefits | 2,289 | 52 | 7,122 | 824 |
| Other Income (Expense), net | 2,471 | (174) | 7,841 | (802) |
| Income Before Income Taxes | 116,701 | 106,752 | 294,517 | 308,322 |
| Income Tax Expense | 24,727 | 22,513 | 58,093 | 66,143 |
| Net Income | $ 91,974 | $ 84,239 | $ 236,424 | $ 242,179 |
| Weighted-Average Common Shares Outstanding: | | | | |
| Basic | 41,680 | 41,600 | 41,663 | 41,582 |
| Diluted | 42,058 | 41,974 | 42,028 | 41,930 |
| Earnings Per Share: | | | | |
| Basic | $ 2.21 | $ 2.02 | $ 5.67 | $ 5.82 |
| Diluted | $ 2.19 | $ 2.01 | $ 5.63 | $ 5.78 |

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OTTER TAIL CORPORATION

CONSOLIDATED BALANCE SHEETS (unaudited)

| (in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and Cash Equivalents | $ 189,214 | $ 118,996 |
| Receivables, net of allowance for credit losses | 193,175 | 144,393 |
| Inventories | 142,007 | 145,952 |
| Regulatory Assets | 17,041 | 24,999 |
| Other Current Assets | 15,313 | 18,412 |
| Total Current Assets | 556,750 | 452,752 |
| Noncurrent Assets | | |
| Investments | 59,322 | 54,845 |
| Property, Plant and Equipment, net of accumulated depreciation | 2,387,260 | 2,212,717 |
| Regulatory Assets | 89,491 | 94,655 |
| Intangible Assets, net of accumulated amortization | 7,118 | 7,943 |
| Goodwill | 37,572 | 37,572 |
| Other Noncurrent Assets | 49,956 | 41,177 |
| Total Noncurrent Assets | 2,630,719 | 2,448,909 |
| **Total Assets** | $3,187,469 | $ 2,901,661 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Short-Term Debt | $ 51,495 | $ 8,204 |
| Accounts Payable | 103,118 | 104,400 |
| Accrued Salaries and Wages | 32,227 | 32,327 |
| Accrued Taxes | 50,495 | 19,340 |
| Regulatory Liabilities | 32,285 | 17,300 |
| Other Current Liabilities | 40,413 | 56,065 |
| Total Current Liabilities | 310,033 | 237,636 |
| Noncurrent Liabilities and Deferred Credits | | |
| Pensions Benefit Liability | 33,083 | 33,210 |
| Other Postretirement Benefits Liability | 26,101 | 46,977 |
| Regulatory Liabilities | 275,809 | 244,497 |
| Deferred Income Taxes | 234,787 | 221,302 |
| Deferred Tax Credits | 15,358 | 15,916 |
| Other Noncurrent Liabilities | 65,371 | 60,985 |
| Total Noncurrent Liabilities and Deferred Credits | 650,509 | 622,887 |
| Commitments and Contingencies | | |
| Capitalization | | |
| Long-Term Debt | 823,998 | 823,821 |
| Shareholders' Equity | | |
| Common Shares | 208,553 | 208,156 |
| Additional Paid-In Capital | 426,358 | 423,034 |
| Retained Earnings | 766,844 | 585,212 |
| Accumulated Other Comprehensive Income | 1,174 | 915 |
| Total Shareholders' Equity | 1,402,929 | 1,217,317 |
| Total Capitalization | 2,226,927 | 2,041,138 |
| **Total Liabilities and Shareholders' Equity** | $3,187,469 | $ 2,901,661 |

OTTER TAIL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| (in thousands) | Nine Months Ended September 30, 2023 | 2022 |
|---|---|---|
| **Operating Activities** | | |
| Net Income | $ 236,424 | $ 242,179 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 72,636 | 69,829 |

| | | |
|---|---|---|
| Deferred Tax Credits | (558) | (558) |
| Deferred Income Taxes | 10,800 | 23,648 |
| Discretionary Contribution to Pension Plan | — | (20,000) |
| Investment (Gains) Losses | (3,734) | 5,406 |
| Stock Compensation Expense | 6,975 | 6,141 |
| Other, net | (164) | (867) |
| Change in Operating Assets and Liabilities: | | |
| Receivables | (48,782) | (18,845) |
| Inventories | 4,873 | 3,632 |
| Regulatory Assets | 8,387 | 170 |
| Other Assets | 3,899 | 1,789 |
| Accounts Payable | (511) | (10,681) |
| Accrued and Other Liabilities | 13,858 | (13,970) |
| Regulatory Liabilities | 21,601 | (1,208) |
| Pension and Other Postretirement Benefits | (7,209) | 1,308 |
| Net Cash Provided by Operating Activities | 318,495 | 287,973 |
| Investing Activities | | |
| Capital Expenditures | (229,849) | (123,227) |
| Proceeds from Disposal of Noncurrent Assets | 4,746 | 3,803 |
| Purchases of Investments and Other Assets | (6,915) | (8,132) |
| Net Cash Used in Investing Activities | (232,018) | (127,556) |
| Financing Activities | | |
| Net Borrowings (Repayments) on Short-Term Debt | 43,292 | (91,163) |
| Proceeds from Issuance of Long-Term Debt | — | 90,000 |
| Payments for Retirement of Long-Term Debt | — | (30,000) |
| Dividends Paid | (54,792) | (51,564) |
| Payments for Shares Withheld for Employee Tax Obligations | (3,088) | (2,942) |
| Other, net | (1,671) | (3,298) |
| Net Cash Used in Financing Activities | (16,259) | (88,967) |
| Net Change in Cash and Cash Equivalents | 70,218 | 71,450 |
| Cash and Cash Equivalents at Beginning of Period | 118,996 | 1,537 |
| Cash and Cash Equivalents at End of Period | $ 189,214 | $ 72,987 |

OTTER TAIL CORPORATION
SEGMENT RESULTS (unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2023 | 2022 | 2023 | 2022 |
| Operating Revenues | | | | |
| Electric | $ 130,326 | $ 142,747 | $ 395,997 | $ 404,112 |
| Manufacturing | 100,678 | 98,767 | 309,936 | 306,921 |
| Plastics | 127,052 | 142,342 | 328,920 | 447,767 |
| Total Operating Revenues | $ 358,056 | $ 383,856 | $1,034,853 | $ 1,158,800 |
| Operating Income (Loss) | | | | |
| Electric | $ 33,142 | $ 35,956 | $ 88,427 | $ 90,765 |
| Manufacturing | 8,829 | 8,380 | 26,657 | 25,017 |
| Plastics | 80,119 | 75,801 | 200,836 | 231,223 |
| Corporate | (974) | (4,004) | (8,081) | (11,507) |
| Total Operating Income | $ 121,116 | $ 116,133 | $ 307,839 | $ 335,498 |
| Net Income (Loss) | | | | |
| Electric | $ 24,565 | $ 24,847 | $ 67,420 | $ 62,938 |
| Manufacturing | 7,446 | 6,219 | 20,276 | 17,858 |
| Plastics | 59,162 | 55,982 | 148,240 | 170,788 |
| Corporate | 801 | (2,809) | 488 | (9,405) |
| Total Net Income | $ 91,974 | $ 84,239 | $ 236,424 | $ 242,179 |

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Source: Otter Tail Corporation