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## Otter Tail Corporation

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# Otter Tail Corporation

OTTR / NASDAQ

**Initiating Coverage:**

**Investment Rating: HOLD**

PRICE: USD 57.43 S&P 500: 3,066.91 DIJA: 27,347.36 RUSSELL 2000: 1,589.33

- Annual anticipated dividend per share for 2019 is USD 1.40, a 4.5% increase over 2018.
- Planned capital budget expenditures of roughly USD 1.1 billion for the years 2019 through 2023
- Construction begins on company's largest project in history
- Anticipate approximately 30% of their energy will come from renewables by 2022.
- Continued investigation and evaluation of organic growth opportunities.

Valuation	2019 A	2020 E	2021 E
EPS	2.06	2.18	2.33
P/E	26.70	25.90	25.00
P/CFPS	13.49	13.01	12.51
P/BVPS	2.90	2.88	2.86
EV/EBITDA	15.10	14.80	14.50

## Market and Trading Information

Equity Market Cap (Millions):	2.28	52-Week Range (USD):	45.01 - 57.74
Enterprise Value (Millions):	2.93	12-Month Stock Return:	29.70%
Shares Outstanding (Millions):	39.76	Dividend / Capital Gain Yields:	2.4%/27.3%
Estimated Float (Millions):	39.12	12-Month Russell 2000 Return:	2.56%
3-mo Avg. Daily Volume (Thousands):	217.14	Beta:	0.29

## Company Quick View:

**Location:** 215 South Cascade Street, Fergus Falls, MN 56538

**Industry:** Electric Services (SIC 4911) / Other Electric Power Generation (NIACS 22118)

**Description:** Otter Tail Corporation is an energy company based out of Fergus Falls, Minnesota. It provides electricity and energy services to customers in Minnesota, North Dakota, and South Dakota.

**Key Products & Services:** Otter Tail Corporation operates in three segments: Electric, Manufacturing and Plastics. These three segments consist of production, transmission, distribution and sale of electric energy, business manufacturing activities, and producing polyvinyl chloride pipe.

**Website:** <http://www.ottertail.com>

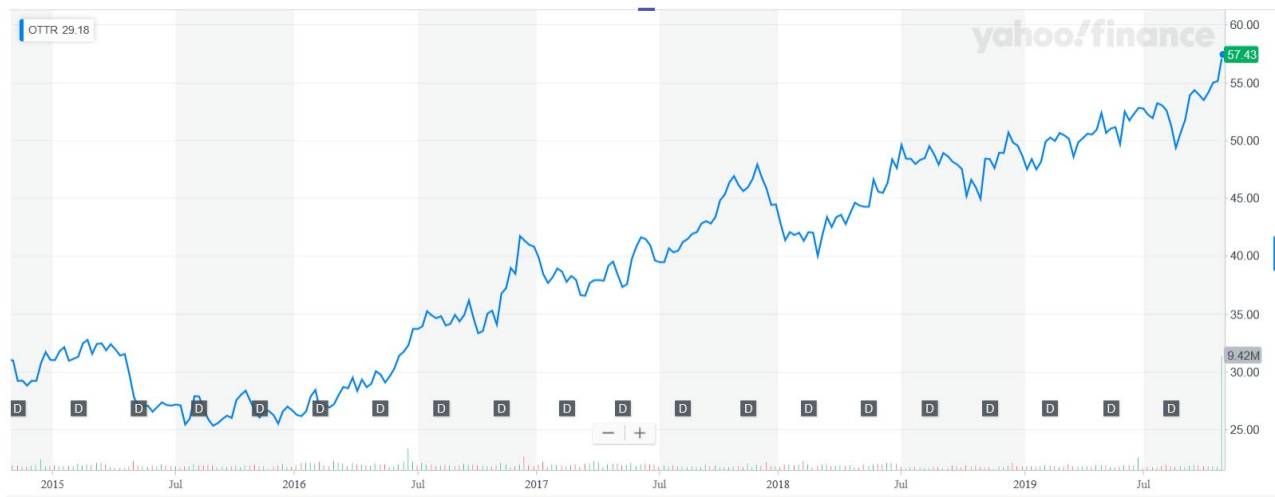
**Analyst:** Heather Strese



**STOCK PRICE PERFORMANCE**

The table below illustrates Otter Tail Corporation’s stock price performance from the past five years (11/1/2014 – 11/1/2019). Otter Tail Corporation’s stock has gradually increased to the current price of USD 57.43. On 8/25/2015 they closed at USD 24.90, which was their lowest overall stock price in the 5 years. In 2019, their stock price closed at the lowest of USD 46.54 on 1/1/2019 and highest USD 57.43 on 11/1/2019.

Figure 1: 5-year Stock Price Performance



Source: Yahoo Finance 11/1/2019

MDU Resource Group Inc., one of Otter Tail Corporation’s competitors, had a similar 5-year graph. Their lowest stock price closed at USD 23.56 on 1/2/2019 and their highest on 11/1/2019 at USD 29.08 per share, comparable dates to Otter Tail Corporation’s highs and lows for calendar year 2019.

Otter Tail Corporation’s YTD total return is 21.03% for 2019 compared to the Russell 2000 which was 16.57% for 2019. Otter Tail Corporation topped Russell 2000’s 5-year average annual total return by roughly 9.5%. Russell 2000’s average annual total return is 7.45% while Otter Tail Corporation’s ended at 17.02%.

## INVESTMENT DECISION SUMMARY

I am giving the recommendation to hold Otter Tail Corporation's stock. I have valued Otter Tail Corporation's stock to be USD 56.36 as of November 1, 2019. On that day their actual stock price closed at USD 57.43, USD 1.07 more than I valued their stock price to be. My valuation of Otter Tail Corporation projects their stock price to be USD 63.12 in 2023.

According to Otter Tail Corporation's 2018 10K, their business strategy is to grow their largest business, electric utility, which will lower overall risk, create a more predictable earnings stream, improve credit rating and preserve their ability to fund the dividend. They expect the electric utility business will provide approximately 75% of their overall earnings, with the remaining 25% to come from the manufacturing and plastic pipe segments.

### Future Growth at Otter Tail Corporation

Otter Tail Corporation expects reliable utility performance along with rate base investment opportunities over the next five years. This will offer a strong base of revenues, earnings and cash flow. One major growth strategy and initiative in the future includes USD 1.1 billion for the years 2019 through 2023. Below are details of a few of their upcoming capital projects.

*Merricourt Wind Project:* An Asset Purchase Agreement with EDF Renewable Development, Inc for approximately USD 34.7 million. Construction on Merricourt began in 2019 with an expected completion in 2020 with an estimated cost of USD 200.5 million. The Merricourt project, located across 13,700 acres in McIntosh and Dickey Counties, North Dakota, will consist of 75 wind turbines, the largest project Otter Tail Corporation's history.

*Big Stone-Ellendale Multi-Value Transmission Project:* Otter Tail Corporation is a 50% owner in a 163-mile 345-kv line that runs northwest from the Big Stone City, South Dakota to Ellendale, North Dakota. The USD 115 million investment improves regional transmission reliability and allows for the interconnection of significant renewable and other generation resources.

*Astoria Station:* To prepare for Hoot Lake's (Otter Tail Corporation's coal-fired power plant) retirement in 2021, they will begin full construction on Astoria Station

in 2020. With an estimated cost of USD 165 million, Astoria Station will be a 250-MW simple-cycle natural gas-fired combustion turbine generation facility to reliably meet customers' electric needs and replace expiring capacity purchase agreements.

Another major growth strategy for Otter Tail Corporation is continued investigation and evaluation of organic growth opportunities and evaluation of opportunities to allocate capital to potential acquisitions in the Manufacturing and Plastics segments. They expect most of the growth in Manufacturing and Plastic segments to come from the utilization of expanded plant capacity from previous capital investments.

## **COMPANY DESCRIPTION**

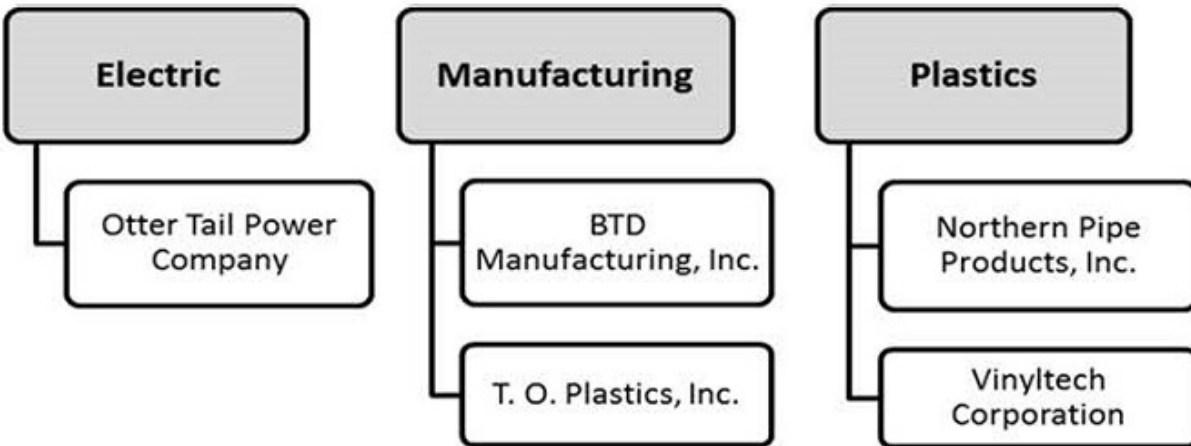
Otter Tail Corporation, a publicly traded company that trades on the NASDAQ under OTTR, was founded 1907 in Fergus Falls, Minnesota, to transmit power to customers of Northern Light Electric Company in Wahpeton, North Dakota. George Wright, the founder of Fergus Falls, incorporated Otter Tail Power Company along with three other investors and began building the Dayton Hollow Dam at a cost of USD 100,000. Otter Tail Corporation now has headquarters in Fergus Falls, Minnesota and Fargo, North Dakota.

In 1912, Otter Tail Corporation merged with Northern Light Electric Company, and by 1919, the company's electric system covered 2,000 square miles in 44 towns. By 1944, they reached maximum territorial size at the time serving 496 communities.

Otter Tail Corporation is the parent company of five subsidiaries, employing approximately 2,300 full time employees. Otter Tail Power Company, based out of Fergus Falls, Minnesota is the main subsidiary of Otter Tail Corporation. They provide electricity and energy services to more than a quarter million people in Minnesota, North Dakota and South Dakota. Otter Tail Power is the only subsidiary in the Electric segment. BTD Manufacturing, Inc. provides metal fabrication services for custom machine parts and metal components. BTD, formed in 1995 in Detroit Lakes, Minnesota, is the largest subsidiary employing 1,200 employees. The other subsidiary in the Manufacturing segment is T.O. Plastics, based out of Clearwater, Minnesota. T.O. Plastics, formed in 2001, manufactures extruded and thermoformed plastic products. Northern Pipe

Products, Inc., in Fargo, North Dakota, and Vinyltech Corporation based out of Phoenix, Arizona manufacture and sell PVC pipes.

### Segments & Subsidiaries



*Source: Otter Tail Corporation 2014 10k*

Otter Tail Corporation engages in three segments electric, manufacturing, and plastics. The electric segment produces, distributes, and sells energy in Minnesota, North Dakota, and South Dakota. It generates electricity through coal, wind and hydro, and natural gas and oil sources, serving approximately 130,000 residents and customers. The Manufacturing segment stamps, fabricates, welds, paints, and lasers cuts metal components for use in the recreational vehicle, agricultural, oil and gas, lawn and garden, industrial equipment, health and fitness, and enclosure industries; manufactures and fabricates parts for off-road equipment, mining machinery, oil fields and offshore rigs, wind industry components, broadcast antennae, and farm equipment; It also provides laser cutting services and stamping to weldments and assemblies for metal fabrication buyers and original equipment manufacturers. The Plastics segment manufactures polyvinyl chloride pipes for municipal water, rural water, wastewater, storm drainage system, and other uses. It also markets its products to wholesalers and distributors through independent sales representatives, company salespersons, and customer service representatives.

Otter Tail Corporation strives to create long-term value and growth for customers, shareholders, and employees by building a strong and focused diversified organization with an electric utility as its foundation. Over time, they expect Otter Tail Power Company to provide approximately 75%-85% of its overall earnings.

Otter Tail Corporations' resource plan identifies a cost-effective combination of resources for providing reliable service over the next 15 years. They selected a plan based on reliability, affordability, achievability, and environmental responsibility. This plan includes adding up to 200 megawatts of wind generation and 30 megawatts of solar generation by 2020, as well as adding approximately 250 megawatts of natural gas generation in 2021. This plan will help keep the customer's bills and the utility's rates as low as practicable, given the regulatory and other constraints.

## MANAGEMENT AND CORPORATE GOVERNANCE

### Executives and Senior Leadership

The table below lists the current executives and senior leadership at Otter Tail Corporation and/or its subsidiaries, along with a short description.

<u>Name</u>	<u>Title &amp; Description</u>
<b>Charles S. MacFarlane</b>	<p>President and Chief Executive Officer</p> <ul style="list-style-type: none"> <li>• April 13, 2015 Charles was named President and CEO</li> <li>• Charles guides corporate strategy as the highest-ranking executive</li> <li>• Charles joined Otter Tail Power Company in 2001 as the Director of Financial Analysis and Planning, named Vice President of Finance and Business Planning beginning May 2002, then became interim President in August 2002. In 2007 Charles became CEO of Otter Tail Power until 2014 when he became Present and Chief Operating Officer of Otter Tail Corporation.</li> <li>• Salary: USD 650,000</li> <li>• Tenure 16</li> </ul>
<b>Kevin G. Moug</b>	<p>Chief Financial Officer and Senior Vice President</p> <ul style="list-style-type: none"> <li>• Joined Otter Tail Corporation in 1996, became Senior Vice President and CFO on April 9, 2001</li> <li>• Kevin oversees the financial functions and performance for the corporation and its operating companies. He also directs the corporate services for</li> </ul>

	<p>treasury, accounting, tax and external reporting, investor relations, financial planning, information technology, sourcing, internal audit, and business risk management and acquisition evaluations.</p> <ul style="list-style-type: none"> <li>• Salary: USD 444,000</li> <li>• Tenure 18</li> </ul>
<b>Timothy J. Roselstad</b>	<p>Senior Vice President, Electric Platform; Present, Otter Tail Power Company</p> <ul style="list-style-type: none"> <li>• Timothy joined Otter Tail Power Company in 1989 as an Engineer in the System Engineering Department and has serviced as Supervisor of Transmission Planning and Manager of Delivery Planning. December of 2012 he was named Vice President, Asset Management, and was the executive in charge of delivery planning, delivery maintenance, delivery engineering, system operations, and project management. He was then named President in April of 2014</li> <li>• Accountable for the operations of Otter Tail Corporation's largest and foundational business, Otter Tail Power Company</li> <li>• Salary: USD 370,000</li> <li>• Tenure 5</li> </ul>
<b>John S. Abbott</b>	<p>Senior Vice President, Manufacturing Platform; President, Varistar</p> <ul style="list-style-type: none"> <li>• Joined Varistar Corporation on April 13, 2015</li> <li>• John partners with the corporation's senior management team and the manufacturing company presidents and staff to drive sustainable and profitable growth and, above all, to provide a safe and productive work environment for employees while delighting customers.</li> <li>• Salary: USD 350,000</li> <li>• Tenure 4</li> </ul>
<b>Paul L. Knutson</b>	<p>Vice President, Human Resources</p> <ul style="list-style-type: none"> <li>• Paul joined Otter Tail Corporation as Vice President in 2012.</li> <li>• He is responsible for ensuring the organization attracts, develops and retains the talent needed to drive success.</li> </ul>
<b>Jennifer O. Smestad</b>	<p>Vice President, General Counsel, and Corporate Secretary</p> <ul style="list-style-type: none"> <li>• Jennifer began her career at Otter Tail Corporation in 2001 as an Associate General Counsel, supporting the corporation's manufacturing companies. In 2005 she began to focus on exclusively on the legal affairs of Otter Tail</li> </ul>



	<p>Power Company and was promoted to Senior Associate General Counsel in 2012 then to General Counsel in 2013. In 2018, she was appointed to a dual role as Vice President, General Counsel, and Corporate Secretary at Otter Tail Corporation and General Counsel and Vice President, Legal Affairs, at Otter Tail Power Company</p> <ul style="list-style-type: none"> <li>• Jennifer ensures that the corporation and its operating companies are fully compliant with laws and regulations, manage legal risk, and make difficult legal decisions responsibly</li> <li>• Salary: USD 315,000</li> <li>• Tenure 1</li> </ul>
<b>Stephanie A. Hott</b>	<p>Director, Corporate Communications</p> <ul style="list-style-type: none"> <li>• Stephanie began working for Otter Tail Power Company in 2000 as a freelance writer, then officially joined in 2006 as Communications Specialist. She became a manager in 2013 until she began her dual role as Director of Corporate Communications and Director of Public Relations for the power company in 2018.</li> <li>• Accountable for Otter Tail Corporations external and internal communications, including media relations</li> <li>• Salary: n/a</li> <li>• Tenure 19</li> </ul>

### Management Incentives

Annual incentives are an integral part of the executive's total compensation package. The goal of the annual incentive is to reflect the Return on Equity (ROE) and related Earnings per Share (EPS) that investors would expect given the mix of business, related risks and regulations. Just like the executive's base pay, the annual incentive opportunity may be adjusted to reflect the overall level of pay at risk deemed appropriate for the position. The Compensation Committee approves the Annual Incentive Plan in April, but it applies to the calendar year for which it is approved.

Long-term stock-based incentives used to provide the executive with a substantial stake in long-term success of the Corporation- thus linking the executives' long-term financial interests with the

Corporation's shareholders. These stock-based incentives are typically granted in February of each year.

### Board of Directors

A nine-member Board of Directors governs Otter Tail Corporation. The Board of Directors shall have a substantial majority of independent Directors as that term is defined by the Nasdaq Listing Standards. The core responsibilities of these nine Directors is to exercise their business judgement in a manner that they reasonably believe to be in the best interest of the Corporation and the shareholders. The table below lists the current nine Board of Directors for Otter Tail Corporation.

<u>Name</u>	<u>Committees</u>	<u>Employment</u>
<b>Nathan I. Patain</b>	Chairman of the Board	President and Chief Investment Officer, Duff & Phelps Investment Management Co.  President, Chief Executive Officer and Chief Investment Officer, DNO Select Income Fund, Inc.
<b>Charles S. MacFarlane</b>	President and Chief Executive Officer	President and Chief Executive Officer, Otter Tail Corporation
<b>Karen M. Bohn</b>	Audit and Corporate Governance	President, Galeo Group, LLC
<b>John D. Erickson</b>	n/a	Past President and Chief Executive Officer, Otter Tail Corporation
<b>Steven L. Fritze</b>	Audit and Corporate Governance	Retired Chief Financial Officer, Ecolab Incorporated  Board Member, Minnesota Public Radio, American Public Media Group, Minnesota Philanthropy Partners, and Wegner Corporation
<b>Kathryn O. Johnson</b>	Compensation and Corporate Governance	Principal, Johnson Environmental Concepts  Board Member, South Dakota Board of Regents

<b>Timothy J. O’Keefe</b>	Compensation and Corporate Governance	Retired Executive Vice President, University of North Dakota Alumni Association, and Chief Executive Officer, University of North Dakota Foundation  Former business owner
<b>James B. Stake</b>	Audit and Compensation	Retired Executive Vice President, Enterprise Services, 3M Company
<b>Thomas J. Webb</b>	Audit and Compensation	Retired Executive Vice President, Chief Financial Officer, and Vice Chairman, CMS Energy Corporation  Chairman of the Board, EnerBank USA

As of October 4, 2019, Otter Tail Corporation’s ISS Governance QualityScore is 2. The pillar scores are Audit: 1; Board: 1; Shareholder Rights: 5; Compensation: 1.

Corporate governance scores courtesy of Institutional Shareholder Services (ISS). Scores indicate decile rank relative to index or region. On a scale from 1 (lowest governance risk) to 10 (highest governance risk) for each of the four corporate governance categories; Audit, Board, Shareholder Rights and Compensation.

## ACCOUNTING QUALITY AND POLICIES

Deloitte LLP has been serving as Otter Tail Corporation’s auditor since 1944. According to the 2018 10k, Deloitte LLP provided Otter Tail Corporation with an unqualified accounting opinion. Stating “In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by COSO.”

In 2018, Otter Tail Corporation adopted Accounting Standards Update (ASU) 2014-09, *Revenues from Contract with Customer (Topic 606)* and ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The updates in ASU 2014-09, required Otter Tail Corporation to separate the presentation of revenues from contracts with customers from other revenues on the face of the income statement. This updated standard required reclassification of prior period revenues, expenses, operating income and other income and deductions to conform to presentation and classification requirements under the new standards with no changes to net income or retained earnings.

ASU 2014-09 did not affect the total operating or total electric operating revenues reported in prior years. This update simply resulted in the separate presentation of adjustments to retail electric sales revenue under regulatory Alternative Revenue Programs (ARP's) from revenues from contracts with customers.

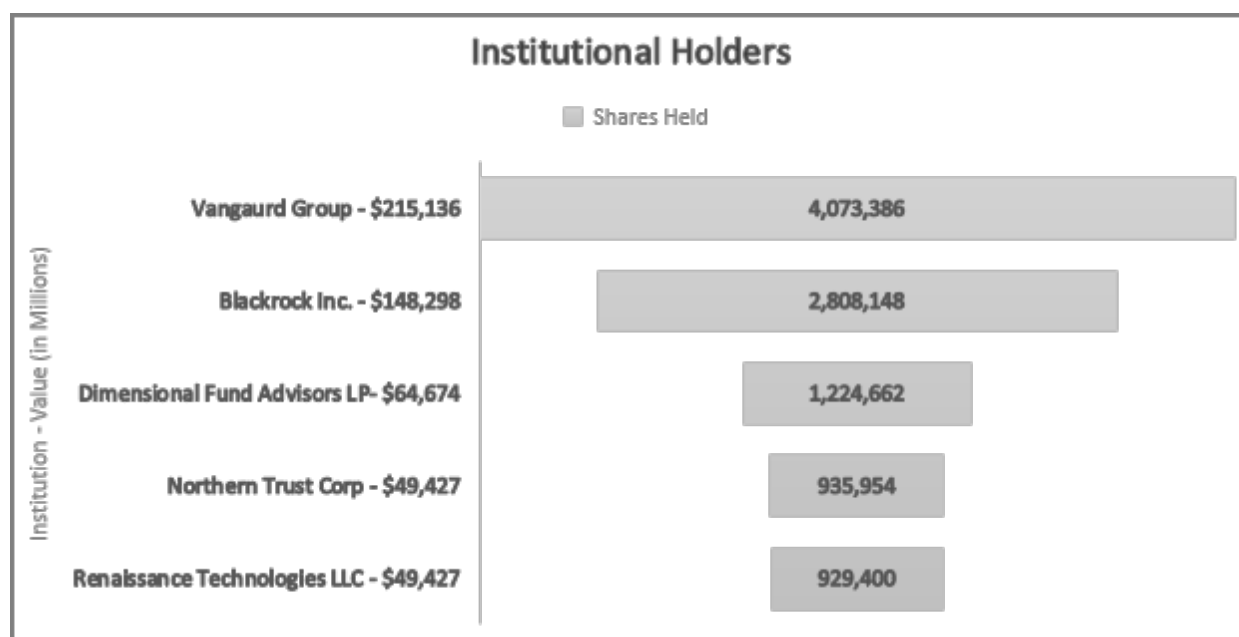
ASU 2017-07 required the reporting of the nonservice cost components of pension and other postretirement benefits outside of operating expense and operating income. The reclassification of these nonservice costs components resulted in reductions in electric operation and maintenance expenses of USD 4,405,000 in 2017 and USD 3,951,000 in 2016, reductions in other nonelectric expenses of USD 1,215,000 and USD 1,159,000 in 2017 and 2016 respectively and increases to operating income and the separate disclosure of nonservice cost components of postretirement benefits below the operating income line of USD 5,620,000 in 2017 and USD 5,110,000 in 2016.

Otter Tail Corporation's 2018 Quality of Earnings ratio was 1.91 while the 5-year average was slightly higher at 2.16. The quality of earnings ratio is an indicator of the extent to which the net income of a business fulfilled quality criteria. Otter Tail Corporation's is significantly greater than 1 suggesting the net income is less than the operating cash flows, implying the business is conservative in its approach to income recognition.

## **SHAREHOLDER ANALYSIS**

### Institutional Holders

Otter Tail Corporation has 195 institutional holders making up 52.89% of their total shares outstanding. Vanguard Group holds the largest number of shares with 4,073,386 and a value of USD 215,136,638, which is 10.25% of the total institutional holders. The chart below shows the top five institutional holders, number of shares, and total value.



Source: Nasdaq as of 6/30/2019

Insider Activity

In the past 12 months, Otter Tail Corporation has had a total of 30 insider trades, 14 open market buys and 16 sells, accounting for 187,683 total shares traded. The table below shows the insider trade activity in 2019 as of 6/30/2019.

Insider	Date	Shares Traded	Transaction Type	Total Shares Held
Jennifer Smestad	4/8/2019	250	Option Execute	635
Paul Knutson	2/22/2019	3,000	Automatic Sell	4,427
Kevin Moug	2/6/2019	2,850	Option Execute	59,366
Charles Mcfarland	2/6/2019	7,900	Option Execute	139,872
Jennifer Smestad	2/6/2019	300	Option Execute	548

Paul Knutson	2/6/2019	900	Option Execute	4,407
John Abbott	2/6/2019	1,975	Option Execute	8,435
Timothy Rogelstad	2/6/2019	1,925	Option Execute	17,789

*Source: Nasdaq as of 6/30/2019*

Otter Tail Corporation shareholders are eligible to enroll in the Automatic Dividend Reinvestment and Share Purchase Plan. This plan provides the corporation's common shareholders, retail customers of Otter Tail Power Company and other interested investors with a convenient method of purchasing Otter Tail common shares, USD 5 par value, without paying any brokerage fees or service charges. Current record holders of common shares can purchase additional common shares by reinvesting all of their dividends and/or making optional cash investments. Otter Tail Corporation is offering 1,500,000 common shares under this plan.

## **INDUSTRY ANALYSIS**

Sector: Electric Utilities

Industry SIC Code: Electric services (4911)

Industry NAISC Code: Electric Bulk Power Transmission and Control (221121)

The Electric Services industry establishments engage in the generations, transmission, and/or distribution of electric energy for sale. There are roughly 8,750 companies classified with SIC Code 4911 in the United States with an estimated employment of 807,600 people.

### Rivalry Among Existing Enterprises

Because of regulation, competition within the utilities industry is typically low. Most companies are not overlapping their entire footprint with other competitors; therefore, they are not sharing customers.

### Threats of New Entries

New entrants in the electric industry market is not very common. A new competitor will have high startup costs; they will need approval from the governing agency. In addition, they will

likely have higher cost of production as well as the trouble finding a new geographic location to get customers. These would all discourage a new competitor from joining the electric industry.

#### Threats from Product Substitutes

Technology could potentially produce a substitute with lower cost, but there is a low chance substitutes would become available and pose a threat on the electric industry any time soon.

#### Bargaining Power of Suppliers

The bargaining power of suppliers is low due to the high level of competition among energy generators, forcing the cost of energy down. Many utility companies do not rely on their supplies; utility companies generate most of the energy themselves.

#### Bargaining Power of Clients

Customers do not have high bargaining power due to government regulations. Majority of customers do not have an option to choose their energy supplier, they must use the company available to them in the geographic region.

### **INVESTMENT RISK**

Otter Tail Corporation is subject to various risks and uncertainties, like any other company. Below are few risks that could affect the general aspects, electric, manufacturing and plastic segments of the business.

#### General

Federal and state environmental regulation could require Otter Tail Corporation to incur substantial capital expenditures and increased operating costs. They are subject to federal, state, and local environmental laws and regulations relating to air and water quality, waste management, natural resources. To stay compliant Otter Tail Corporation must commit significant resources and funds toward environmental monitoring, installation and operation of pollution control equipment, payment of emission fees and securing environmental permits.

Volatile financial markets and changes in debt ratings could restrict the ability to access capital and increase borrowing costs. Otter Tail Corporation relies on access to both short-term and long-

term capital markets as a source of liquidity, with a current debt rating of BBB from Standard & Poor's. If they were not able to access capital at competitive rates, the ability to implement business plans may be affected adversely.

The loss of a significant customer would have a substantial negative financial impact on the operating company and its business segment. Four of the operating companies have a single customer that provides a large portion of the operating company's revenue. In 2018, one customer accounted for 11% of the Electric segment and two customers accounted for 33% and 39% of the Manufacturing and Plastics' segments, respectively.

Otter Tail Corporation's information systems, electric transmission and generation facilities could be vulnerable to cyber and physical attack that could impair their ability to provide electric services to their customers or disrupt the U.S. bulk power system. A breach of certain business systems could affect the ability to correctly record, process and report financial information and transactions.

### Electric

The rates that Otter Tail Power charges its electric customers are subject to review and determined by state public utility commissions in Minnesota, North Dakota and South Dakota. These regulatory actions may have a negative impact on their business and results of operations.

Unscheduled plant outages, unanticipated operation and maintenance expenses and increase power purchase costs could adversely affect energy output and efficiency levels at Otter Tail Power's electric generating facilities.

### Manufacturing

Competition from foreign and domestic manufacturers, the price and availability of raw materials, trade policy and tariffs affecting prices and markets for raw materials and manufactured products, prices and supply of scrap or recyclable material and general economic conditions could intensely affect the revenues and earnings of Otter Tail Corporations manufacturing businesses.

### Plastics

Otter Tail Corporations plastics operations are highly dependent on a limited number of vendors for PVC resin and a limited supply of PVC resin. The loss of a key vendor, or any interruption or



delay in the supply of PVC resin, could result in reduced sales or increased costs for their plastics business. Two vendors provide 99% of their total purchases of PVC resin in 2018, as well as limited supply primarily due to manufacturing capacity and the limited availability of raw material components.

Customers may not distinguish Otter Tail Corporation's products from their competitors. They compete against many other manufacturers for PVC pipe and manufacturers of alternative products.

Changes in PVC resin prices can negatively affect Otter Tail Corporation's plastics business. The PVC industry is highly sensitive to commodity raw material pricing volatility. Changes in PVC resin prices can negatively affect PVC pipe prices, profit margins on PVC pipe sales and the value of their finished goods inventory.

## **PEER ANALYSIS**

Below are a few of Otter Tail Corporation's top competitors. These four companies all have the NAICS code 221121: Electric Bulk Power Transmission and Control. Black Hills Corporation and MDU Resources Group Inc. have SIC code 4911: Electric Services, while Excel Energy Inc. and Exelon Corporation have 4931: Electric and other services combined.

### Black Hills Corporation

Black Hills began as Black Hills Power & Light Company in South Dakota in 1941, eventually changing their name to Black Hills Corporation in 1986. Black Hills operates in four segments: electric utilities, gas utilities, power generation, and mining. Their electric utilities segment distributes electricity to customers in South Dakota, Wyoming, Colorado, and Montana and the gas utilities segment provides natural gas to customers in Arkansas, Colorado, Iowa, Nebraska, Kansas, and Wyoming. They serve 1,200,000 electric and natural gas customers in more than 800 communities.

### MDU Resources Group Inc.

MDU, founded in 1924, began by serving a few farm communities on the border of North Dakota and Montana. Now the largest publicly traded company headquartered in North Dakota, conducts

business in 44 states with almost 12,000 employees. MDU is organized into five business segments: electric, natural gas distribution, pipeline and midstream, construction materials and contracting, and construction services.

### Excel Energy Inc.

Excel Energy, incorporated under Minnesota laws in 1909, is an electric and natural gas delivery company that serves customers in Colorado, Michigan, Minnesota, New Mexico, North Dakota, South Dakota, Texas, and Wisconsin. They provide products and services to roughly 3,600,000 electric customers and 2,000,000 natural gas customers with roughly 11,000 employees and four operating companies: Northern States Power Company (NSP-Minnesota), Northern States Power Company (NSP-Wisconsin), Public Service Company of Colorado (PSCo), and Southwestern Public Service Co. (SPS).

### Otter Tail Corporation Peer Analysis

*As of 11/3/2019*

	<u>Ticker</u> <u>Symbol</u>	<u>Sales</u> <u>(USD</u> <u>millions)</u>	<u>Market Cap</u> <u>(USD</u> <u>billions)</u>	<u>PE</u> <u>Ratio</u>	<u>EV /</u> <u>EBITA</u>	<u>P/BV</u>	<u>ROA</u>	<u>ROE</u>
<i>Otter Tail Corporation</i>	OTTR	924	2.28	29.01	14.72	3.07	3.73%	10.85%
<i>Black Hills Corporation</i>	BKH	1,760	4.59	20.37	13.39	2.01	3.55%	10.66%
<i>MDU Resources Group Inc.</i>	MDU	5,170	5.80	17.32	11.46	2.08	4.07%	11.90%
<i>Xcel Energy Inc.</i>	XEL	11,610	31.55	21.64	13.97	2.45	2.48%	10.23%

### HISTORICAL FINANCIAL ANALYSIS

Even though MDU Resource Group is much larger than Otter Tail Corporation, I chose to compare Otter Tail Corporation to MDU Resource Group as they both offer services to customers

in South Dakota and North Dakota and their joint development of the Big Stone South – Ellendale Project. Below are six tables comparing productivity, liquidity, financial risk, and profitability ratios of Otter Tail Corporation to those of MDU Resource Group Inc.

Looking at growth in sales, Otter Tail Corporation has continued to increase over the past five years, ending with 7.90% growth in 2018, compared to MDU Resource Group Inc. whose growth has been inconsistent over the past five years. Otter Tail Corporation's total revenue in 2014 was USD 799 million and ending in 2018 at USD 916 million, whereas, MDU Resources Group's total revenue was roughly USD 4.6 and USD 4.5 billion in 2014 and 2018 respectively. MDU Resource Group has considerably higher revenue as well as total assets. In comparing 2018's fixed asset turnover and total asset turnover, Otter Tail Corporation assets are roughly half of their total revenue, while MDU Resource Group had assets totaling almost USD 7 billion, which leads to superior asset turnover.

**Productivity Ratios- Otter Tail Corporation**      **2018**      **2017**      **2016**      **2015**      **2014**

▪ <i>Growth in Sales</i>	7.90%	5.7%	3.0%	-2.40%	n/a
▪ <i>Receivables Turnover</i>	10.80	11.14	10.85	10.82	10.90
▪ <i>Operating Working Capital Turnover</i>	16.36	14.36	22.54	19.04	43.22
▪ <i>Net Fixed Asset Turnover</i>	0.51	0.48	0.47	0.49	0.54
▪ <i>Total Asset Turnover</i>	0.45	0.42	0.42	0.43	0.45

**Productivity Ratios- MDU Resource Group Inc.**      **2018**      **2017**      **2016**      **2015**      **2014**

▪ <i>Growth in Sales</i>	2%	7.60%	-1.5%	-10.3%	n/a
▪ <i>Receivables Turnover</i>	6.27	6.11	6.55	7.10	6.74
▪ <i>Operating Working Capital Turnover</i>	10.07	10.95	11.75	12.71	9.90

▪ <i>Net Fixed Asset Turnover</i>	0.80	0.87	0.80	0.76	0.72
▪ <i>Total Asset Turnover</i>	0.65	0.70	0.66	0.64	0.60

Comparing the current and cash ratios between Otter Tail Corporation and MDU Resource Group, Otter Tail Corporation is slightly more liquid than MDU Resource Group. Looking at the most recent year, MDU Resource Group had current assets of USD 1.1 billion and liabilities of USD 986 million, while Otter Tail Corporation only had current assets and current liabilities of USD 241 and USD 158 million respectively.

Otter Tail Corporation's cash cycle has gradually increased from 23.54 days to 37.38. Likewise, MDU Resource Group's cash cycle rose from 47.78 to 52.50 days. The increase of days in the cash cycle can be explained by the recent rise in their accounts receivable balances for both companies.

<u><i>Liquidity Ratios- Otter Tail Corporation</i></u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
▪ <i>Current Ratio</i>	1.54	1.02	1.05	0.81	2.03
▪ <i>Cash Ratio</i>	0.04	0.12	0.04	0.03	0.37
▪ <i>Cash Cycle</i>	37.38	34.41	31.11	31.81	23.54

<u><i>Liquidity Ratios- MDU Resource Group Inc.</i></u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
▪ <i>Current Ratio</i>	1.20	1.32	1.46	1.04	1.21
▪ <i>Cash Ratio</i>	0.05	0.04	0.07	0.09	0.08
▪ <i>Cash Cycle</i>	52.50	52.68	52.03	46.45	47.78

The financial risk (leverage) ratios between Otter Tail Corporation and MDU Resource Group are similar for 2018. Otter Tail Corporation's debt-to-equity has gradually decreased from 2014 to 2018, MDU Resource Group on the other hand, has slowly increased. The largest variance comes from the long-term financing debt over invested capital, which has increased since 2014 for both

Otter Tail Corporation and MDU Resource Group, however Otter Tail Corporation has additional long-term debt to invested capital.

**. Financial Risk (Leverage) 2018 2017 2016 2015 2014**

**Ratios- Otter Tail Corporation**

▪ <i>Total Debt-to-Equity Ratio</i>	1.82	1.88	1.85	2.01	2.13
▪ <i>Total Debt-to-Asset Ratio</i>	0.64	0.65	0.65	0.67	0.68
▪ <i>Long-term Financing Debt over Invested Capital</i>	0.41	0.37	0.38	0.36	0.44

**Financial Risk Ratios- MDU 2018 2017 2016 2015 2014**

**Resource Group Inc.**

▪ <i>Total Debt-to-Equity Ratio</i>	1.72	1.61	1.73	1.63	1.41
▪ <i>Total Debt-to-Asset Ratio</i>	0.63	0.62	0.63	0.62	0.58
▪ <i>Long-term Financing Debt over Invested Capital</i>	0.30	0.28	0.32	0.28	0.26

Otter Tail Corporation's gross profit margin has steadily increased 2.7 % in the 5-year analysis compared to MDU Resource Group's 5.9% decrease. Otter Tail Corporation has been relatively consistent with the other profitability/valuation ratios, suggesting they are improving their cost structure, unlike MDU Resource Group.

**Profitability/Valuation Ratios- 2018 2017 2016 2015 2014**

**Otter Tail Corporation**

▪ <i>Gross Profit Margin</i>	24%	25.2%	24.7%	23.5%	21.3%
▪ <i>EBITDA Margin</i>	22.3%	23.4%	23%	21.7%	19.7%
▪ <i>NOPAT Margin</i>	13.2%	13.0%	12.7%	8.4%	51.6%
▪ <i>Return on Assets</i>	6.3%	6.29%	5.81%	6%	5.56%
▪ <i>ROIC</i>	6.67%	6.38%	6.2%	4.4%	n/a

**Profitability/Valuation Ratios-**    **2018**    **2017**    **2016**    **2015**    **2014**  
**MDU Resource Group Inc.**

▪ <i>Gross Profit Margin</i>	19.2%	19.8%	20.7%	17%	25.1%
▪ <i>EBITDA Margin</i>	13.7%	14.3%	15.1%	11.5%	19%
▪ <i>NOPAT Margin</i>	9.4%	0.6%	6.6%	-1.9%	27.3%
▪ <i>Return on Assets</i>	5.75%	6.77%	6.51%	3.85%	6.27%
▪ <i>ROIC</i>	7.67%	0.51%	4.69%	-1.14%	n/a

## PROSPECTIVE FINANCIAL ANALYSIS

Otter Tail Corporation has major growth strategies and capital projects therefore I project the sales growth rate to continue at 8% for the next five years, and then fall to 4% for their long-term growth rate. Their sales growth rate in 2016 was 3% and increased to 7.9% in 2018. My projection is in line with Otter Tail Corporation, as management also predicted 8% sales growth because of the recent capital projects in the utility segment.

As Otter Tail Corporations becomes more efficient, I project the Cost of Goods Sold over Sales (COGS/Sales) to gently decrease starting at 76.06% down to 76.02% in 2023 due to the expected growth in the gross margin. The gross margin should increase attributable to efficiency improvements in the manufacturing segments and the expected growth in the electric segment, which has healthier margins.

I forecast Net PP&E over Sales (Net PPE/Sales) to increase gradually to 175.5% in 2023 which, follows Otter Tail Corporation's capital expenditure project plans. For the long-term Net PPE/Sales, I anticipate it to drop slightly back to 173% after the projects are complete.

To calculate the WACC, I first estimated the target long-term debt at 25%. I used this estimate because through my valuation Otter Tail Corporation's current long-term debt over the market value of common stock and total debt is 24.82%. I used the Capital Asset Pricing Model (CAPM) in determining their cost of equity with a beta of 0.29 (Yahoo Finance), risk free rate of 3% (current Yield to maturity on long-term Treasury securities), and market risk premium of 6%. Lastly, in calculating Otter Tail Corporation's cost of long-term cost of debt, I used the risk free

rate at 3%, spread for bond rating of 2%, and Otter Tail Corporation's tax rate at 21%. I determined Otter Tail Corporation's WACC is 4.53% as of November 1, 2019.

In the sensitivity analysis below, I utilized the sales growth rate and beta to determine how those minor changes would influence the current stock price. As the beta increases the stock price decreases, in contrast the stock price rises when the sales growth increases.

Current Stock Price: USD 57.43

### Sensitivity Analysis

#### Beta

	0.19	0.24	0.29	0.34	0.39	
Sales Growth	5%	\$ 64.80	\$ 57.71	\$ 51.39	\$ 45.75	\$ 40.68
	6%	\$ 67.03	\$ 59.60	\$ 52.99	\$ 47.08	\$ 41.78
	7%	\$ 69.35	\$ 61.57	\$ 54.65	\$ 48.46	\$ 42.91
	8%	\$ 71.75	\$ 63.60	\$ 56.36	\$ 49.89	\$ 44.09
	9%	\$ 74.24	\$ 65.72	\$ 58.14	\$ 51.38	\$ 45.31
	10%	\$ 76.82	\$ 67.91	\$ 59.99	\$ 52.92	\$ 46.57
	11%	\$ 79.49	\$ 70.18	\$ 61.90	\$ 54.51	\$ 47.88

*\*Green: Undervalued, Orange: Hold, Red: Overvalued*

### VALUATION AND INVESTMENT DECISION

I also used the multiples approach to in attempt to value Otter Tail Corporation's stock price. Comparing Otter Tail Corporation's and MDU Resources Inc., I find Otter Tail Corporation's price per share overvalued when determining their stock price using the multiples Price to Sales, Price to Earnings and fairly value according to the EV/EBITDA multiple. I trust the EV/EBITDA since this ratio considers more information than Price to Sales and is less subject to the potential manipulation by management than Price to Earnings.

Multiples	MDU Resources	Otter Tail Corporation	PPS	Valuation	Investment Decision
Price/Sales	1.12	29.01	USD 32.49	Overvalued	Sell

<b>Price/Earnings</b>	17.89	2.06	USD 36.85	Overvalued	Sell
<b>EV/EBITDA</b>	11.61	198.97	USD 58.10	Fairly value	Hold

*Source: Yahoo Finance 11/1/2019*

In my valuation model I gathered Otter Tail Corporation's financial statements, historical and industry data, public information and ratio analysis from Mergent Online, Yahoo Finance and Otter Tail Corporation's 2018 annual report. I discount the expected free cash flows at the WACC and estimate that Otter Tail Corporation's stock price is at USD 56.36 per share as of November 1<sup>st</sup>, 2019, given the small difference between my estimated price per share and the current price per share in the market, and consistent with the EV/EBITDA multiple, I recommend a HOLD on the stock of the company.

## SOURCES OF INFORMATION

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<b>Otter Tail Corp. (NMS: OTTR)</b>	<b>Actual</b>			<b>Projected</b>				
<b>Income Statement</b> (In Thousands of USD)	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2022</b>	<b>12/31/2023</b>
Sales	803539.00	849350.00	916447.00	989762.76	1068943.78	1154459.28	1246816.03	1346561.31
Costs of goods sold (COGS)	604729.00	635618.00	696807.00	752813.56	812931.75	877850.84	947954.22	1023655.91
Sales, general and administrative expense (SGA)	14266.00	15053.00	15585.00	16825.97	18172.04	19625.81	21195.87	22891.54
Depreciation	73445.00	72545.00	74666.00	80245.02	87167.02	94682.98	102257.62	111071.11
<b>Operating profit</b>	<b>111099.00</b>	<b>126134.00</b>	<b>129389.00</b>	<b>139878.22</b>	<b>150672.97</b>	<b>162299.66</b>	<b>175408.31</b>	<b>188942.75</b>
Interest expense	31886.00	29604.00	30408.00	38568.57	43219.25	47657.64	52479.50	57298.52
Interest income	0.00	0.00	0.00	94.77	0.00	0.00	0.00	0.00
Nonoperating income (Expense)	2905.00	2632.00	3461.00	3761.10	4061.99	4386.95	4737.90	5116.93
Earnings before taxes (EBT)	82118.00	99162.00	102442.00	105165.52	111515.70	119028.96	127666.72	136761.16
Tax expense	20081.00	27043.00	15417.08	22084.76	23418.30	24996.08	26810.01	28719.84
Net income before extraordinary items	62037.00	72119.00	87024.92	83080.76	88097.41	94032.88	100856.71	108041.32
After-tax extraordinary income (Expense)	284.00	320.00	-4679.92	-989.76	-1068.94	-1154.46	-1246.82	-1346.56
<b>Net income (NI)</b>	<b>62321.00</b>	<b>72439.00</b>	<b>82345.00</b>	<b>82091.00</b>	<b>87028.46</b>	<b>92878.42</b>	<b>99609.89</b>	<b>106694.76</b>
Dividends-- preferred	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends-- common	48244.00	50632.00	53198.00	56921.86	60906.39	65169.84	69731.73	74612.95
Additions to RE	14077.00	21807.00	29147.00	25169.14	26122.07	27708.58	29878.16	32081.81
<b>Balance Sheet</b> (In Thousands of USD)	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2022</b>	<b>12/31/2023</b>
<b>Assets</b>								
Cash	0.00	16216.00	861.00	989.76	1068.94	1154.46	1246.82	1346.56
Inventory	83740.00	88034.00	106270.00	108873.90	117583.82	126990.52	137149.76	148121.74
Accounts receivable	74092.00	76227.00	84885.00	92047.94	99411.77	107364.71	115953.89	125230.20
Other short-term operating assets	42039.00	46159.00	43290.00	44539.32	48102.47	51950.67	56106.72	60595.26
Short-term investments	8144.00	12491.00	6114.00	0.00	0.00	0.00	0.00	0.00
Total current assets	208015.00	239127.00	241420.00	246450.93	266167.00	287460.36	310457.19	335293.77
Net plant, property, & equipment (PPE)	1477225.00	1539603.00	1581098.00	1707340.76	1854617.46	2014531.45	2175693.97	2363215.10
Other long-term operating assets	218728.00	216919.00	221038.00	237543.06	256546.51	277070.23	299235.85	323174.71
Long-term investments	8417.00	8629.00	8961.00	989.76	1068.94	1154.46	1246.82	1346.56
<b>Total assets</b>	<b>1912385.00</b>	<b>2004278.00</b>	<b>2052517.00</b>	<b>2192324.51</b>	<b>2378399.91</b>	<b>2580216.50</b>	<b>2786633.82</b>	<b>3023030.14</b>
<b>Liabilities and Equity</b>								
Accounts payable (AP)	89350.00	84185.00	96291.00	103925.09	112239.10	121218.22	130915.68	141388.94
Accruals	33497.00	38342.00	42144.00	45529.09	49171.41	53105.13	57353.54	61941.82
Other operating current liabilities	0.00	9688.00	738.00	989.76	1068.94	1154.46	1246.82	1346.56
All short-term debt	76084.00	112557.00	18771.00	31959.91	96852.32	168765.95	239542.94	326209.77
Total current liabilities	198931.00	244772.00	157944.00	182403.85	259331.77	344243.76	429058.98	530887.09
Long-term debt	665539.00	669862.00	759921.00	844889.54	894072.98	946642.70	999849.26	1059524.98
Deferred taxes	256932.00	125209.00	142845.00	153660.67	166915.57	181307.83	195812.46	212689.36
Preferred stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term liabilities	120879.00	267543.00	262944.00	257338.32	277925.38	300159.41	324172.17	350105.94
Total liabilities	1242281.00	1307386.00	1323654.00	1438292.37	1598245.70	1772353.71	1948892.86	2153207.37
Par plus PIC Less treasury (and other adjustments)	629443.00	634424.00	637248.00	637248.00	637248.00	637248.00	637248.00	637248.00
Retained earnings (RE)	40661.00	62468.00	24 91615.00	116784.14	142906.21	170614.79	200492.96	232574.76
Total common equity	670104.00	696892.00	728863.00	754032.14	780154.21	807862.79	837740.96	869822.76
<b>Total liabilities and equity</b>	<b>1912385.00</b>	<b>2004278.00</b>	<b>2052517.00</b>	<b>2192324.51</b>	<b>2378399.91</b>	<b>2580216.50</b>	<b>2786633.82</b>	<b>3023030.14</b>

<b>Otter Tail Corp. (NMS: OTTR)</b>	<b>Actual</b>			<b>Projected</b>				
	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2022</b>	<b>12/31/2023</b>
<b>Statement of Cash Flows (In Thousands of USD)</b>								
<b><i>Operating Activities</i></b>								
Net income	62321.00	72439.00	82345.00	82091.00	87028.46	92878.42	99609.89	106694.76
Depreciation	73445.00	72545.00	74666.00	80245.02	87167.02	94682.98	102257.62	111071.11
Change in deferred tax	13162.00	-131723.00	17636.00	10815.67	13254.90	14392.26	14504.63	16876.90
Change in inventory	1676.00	-4294.00	-18236.00	-2603.90	-8709.91	-9406.71	-10159.24	-10971.98
Change in accounts receivable	-2045.00	-2135.00	-8658.00	-7162.94	-7363.83	-7952.94	-8589.18	-9276.31
Change in other short-term operating assets	-1266.00	-4120.00	2869.00	-1249.32	-3563.15	-3848.20	-4156.05	-4488.54
Change in accounts payable	-149.00	-5165.00	12106.00	7634.09	8314.01	8979.13	9697.46	10473.25
Change in accruals	2488.00	4845.00	3802.00	3385.09	3642.33	3933.71	4248.41	4588.28
Change in other current liabilities	0.00	9688.00	-8950.00	251.76	79.18	85.52	92.36	99.75
<b>Net cash from operating activities</b>	<b>149632.00</b>	<b>12080.00</b>	<b>157580.00</b>	<b>173406.46</b>	<b>179849.01</b>	<b>193744.17</b>	<b>207505.89</b>	<b>225067.22</b>
<b><i>Investing Activities</i></b>								
Investment in PPE	-162856.00	-134923.00	-116161.00	-206487.78	-234443.72	-254596.97	-263420.13	-298592.24
Investment in other long-term oper. ass.	-611.00	1809.00	-4119.00	-16505.06	-19003.44	-20523.72	-22165.62	-23938.87
<b>Net cash from investing activities</b>	<b>-163467.00</b>	<b>-133114.00</b>	<b>-120280.00</b>	<b>-222992.84</b>	<b>-253447.16</b>	<b>-275120.69</b>	<b>-285585.75</b>	<b>-322531.11</b>
<b><i>Financing Activities</i></b>								
Change in short-term investments	309.00	-4347.00	6377.00	6114.00	0.00	0.00	0.00	0.00
Change in long-term investments	-133.00	-212.00	-332.00	7971.24	-79.18	-85.52	-92.36	-99.75
Change in short-term debt	-57132.00	36473.00	-93786.00	13188.91	64892.41	71913.63	70777.00	86666.83
Change in long-term debt	65952.00	4323.00	90059.00	84968.54	49183.44	52569.73	53206.55	59675.73
Preferred dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in preferred stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in other long-term liabilities	2079.00	146664.00	-4599.00	-5605.68	20587.07	22234.03	24012.75	25933.77
Change in common stock (Par + PIC)	51004.00	4981.00	2824.00	0.00	0.00	0.00	0.00	0.00
Common dividends	-48244.00	-50632.00	-53198.00	-56921.86	-60906.39	-65169.84	-69731.73	-74612.95
<b>Net cash from financing activities</b>	<b>13835.00</b>	<b>137250.00</b>	<b>-52655.00</b>	<b>49715.14</b>	<b>73677.34</b>	<b>81462.04</b>	<b>78172.22</b>	<b>97563.63</b>
Net cash flow	0.00	16216.00	-15355.00	128.76	79.18	85.52	92.36	99.75
Starting cash	0.00	0.00	16216.00	861.00	989.76	1068.94	1154.46	1246.82
<b>Ending cash</b>	<b>0.00</b>	<b>16216.00</b>	<b>861.00</b>	<b>989.76</b>	<b>1068.94</b>	<b>1154.46</b>	<b>1246.82</b>	<b>1346.56</b>

Otter Tail Corp. (NMS: OTTR)	Actual			Projected				
	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
<b>Ratios (In Thousands of USD)</b>								
<b>Productivity Ratios</b>								
Growth in sales	3.0%	5.7%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%
Receivables turnover	10.85	11.14	10.80	10.75	10.75	10.75	10.75	10.75
Inventory turnover	9.60	9.65	8.62	9.09	9.09	9.09	9.09	9.09
Operating working capital turnover	10.432	8.995	9.533	10.309	10.309	10.309	10.309	10.309
Net fixed asset turnover	0.47	0.48	0.51	0.51	0.51	0.50	0.50	0.50
Total asset turnover	0.42	0.42	0.45	0.45	0.45	0.45	0.45	0.45
Invested capital turnover	0.45	0.46	0.48	0.48	0.48	0.48	0.48	0.48
<b>Liquidity Ratios</b>								
Current ratio	1.05	0.98	1.53	1.35	1.03	0.84	0.72	0.63
Quick ratio	0.62	0.62	0.86	0.75	0.57	0.47	0.40	0.35
Cash ratio	0.04	0.12	0.04	0.01	0.00	0.00	0.00	0.00
Operating Cycle	71.69	70.59	76.13	74.10	74.10	74.10	74.10	74.10
Short-term investments over invested capital	0.00	0.01	0.00	-	-	-	-	-
<b>Financial Risk (Leverage) Ratios</b>								
Total debt-to-equity ratio	1.85	1.88	1.82	1.91	2.05	2.19	2.33	2.48
Total debt-to-equity ratio (excluding deferred taxes)	1.47	1.70	1.62	1.70	1.83	1.97	2.09	2.23
Total financial debt-to-equity ratio	1.11	1.12	1.07	1.16	1.27	1.38	1.48	1.59
Interest coverage ratio (accounting-based)	3.48	4.26	4.26	3.63	3.49	3.41	3.34	3.30
Interest coverage ratio (cash-based)	5.79	6.71	6.71	5.71	5.50	5.39	5.29	5.24
Total debt-to-assets ratio	0.65	0.65	0.64	0.66	0.67	0.69	0.70	0.71
Total financial debt over invested capital	0.42	0.42	0.41	0.43	0.45	0.46	0.48	0.49
Long-term financial debt over invested capital	0.38	0.36	0.40	0.41	0.40	0.39	0.39	0.38
<b>Profitability/Valuation Ratios</b>								
Gross profit margin	24.7%	25.2%	24.0%	23.9%	24.0%	24.0%	24.0%	24.0%
EBITDA margin	23.0%	23.4%	22.3%	22.2%	22.3%	22.3%	22.3%	22.3%
Operating profit margin	13.8%	14.9%	14.1%	14.1%	14.1%	14.1%	14.1%	14.0%
NOPAT margin	12.1%	-4.7%	13.9%	12.3%	12.4%	12.4%	12.3%	12.3%
Earnings before taxes margin	10.2%	11.7%	11.2%	10.6%	10.4%	10.3%	10.2%	10.2%
Net margin	7.8%	8.5%	9.0%	8.3%	8.1%	8.0%	8.0%	7.9%
Return on Assets	5.8%	6.3%	6.3%	6.4%	6.3%	6.3%	6.3%	6.3%
Net investment rate	91.7%	-196.5%	38.5%	117.6%	131.5%	132.3%	125.6%	133.1%
Dividend payout ratio	77.4%	69.9%	64.6%	69.3%	70.0%	70.2%	70.0%	69.9%
ROIC	5.8%	-2.3%	6.9%	6.3%	6.4%	6.4%	6.3%	6.3%
Economic Profit	\$ (70,988.87)	\$ (216,965.38)	\$ (62,221.71)	\$ 34,372.02	\$ 38,801.71	\$ 41,161.32	\$ 42,990.94	\$ 47,248.52

<b>Valuation Ratios (In Thousands of USD)</b>	<b>12/31/2019</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2022</b>	<b>12/31/2023</b>	<b>12/31/2024</b>	<b>12/31/2025</b>	<b>12/31/2026</b>	<b>12/31/2027</b>	<b>12/31/2028</b>
FCFs (only showing first 10)	-22292.11	-42743.10	-47278.18	-40456.36	-56340.18	82932.48	54505.20	56805.07	59201.72	61699.21
PVFCFs (explicit period 20 years)	-21326.04	-40890.75	-45229.30	-38703.11	-53898.57	79338.45	52143.12	54343.32	56636.10	59025.36
PV Terminal Value	6284803.39	6284803.39	6284803.39	6284803.39	6284803.39	6284803.39	6284803.39	6284803.39	6284803.39	6284803.39
Value of Operations	6263477.35	6243912.64	6239574.09	6246100.28	6230904.82	6364141.84	6336946.51	6339146.71	6341439.49	6343828.75
Value of Investments	989.76	1068.94	1154.46	1246.82	1346.56	1400.42	1456.44	1514.70	1575.29	1638.30
Value of the Firm	3380547.92	3577360.85	3787725.27	4000643.85	4239446.50	4346621.22	4487712.53	4632841.10	4782090.78	4935545.07
- Financial Debt	1134187.77	1268850.68	1415568.06	1563564.37	1735840.69	1776066.73	1848702.30	1924035.80	2002159.16	2083167.14
Implicit Value of Equity	2246360.15	2308510.18	2372157.21	2437079.48	2503605.80	2570554.49	2639010.23	2708805.30	2779931.62	2852377.94
Implicit Value of Equity (on target date)	2235645.73	2235645.73	2235645.73	2235645.73	2235645.73	2235645.73	2235645.73	2235645.73	2235645.73	2235645.73
Number of Shares Outstanding	39664.88	39664.88	39664.88	39664.88	39664.88	39664.88	39664.88	39664.88	39664.88	39664.88
Price per share	56.63	58.20	59.80	61.44	63.12	64.81	66.53	68.29	70.09	71.91