

MS Capital Market News:

Outlining Trends in the Utility, Transmission, Water & Sewer Construction Industries



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Transmission Line Construction in the US

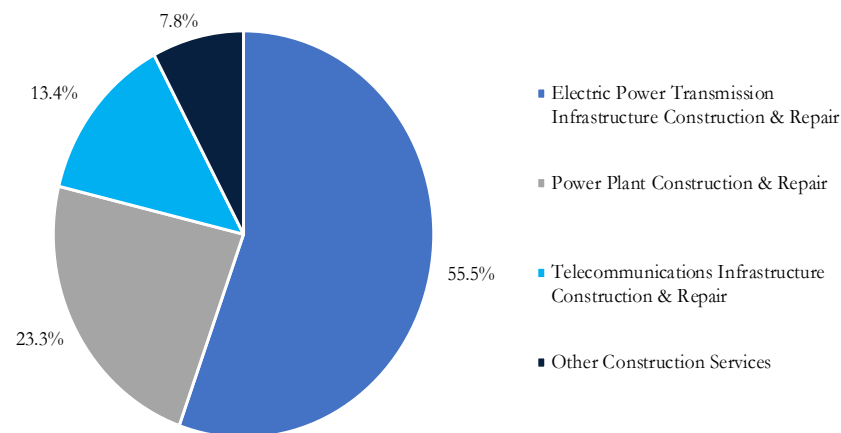
Transmission Line Construction Sector Highlights

- 2019 revenue: \$62.4 billion
- 2019 profit: \$5.1 billion
- Annual growth 2014 – 2019: 1.8%
- Annual growth projected 2019 – 2024: 2.1%
- Key industry drivers: demand from utilities, local and state government investment, number of broadband connections, price of electric power, value of utilities construction, yield on 10-year treasury note.
- Main activities: electric power line construction, reconstruction & repair, power plant construction, communication transmission line construction & repair, communication tower construction & repair, radio and TV transmission / receiving tower construction, reconstruction & repair, laying communications cables.

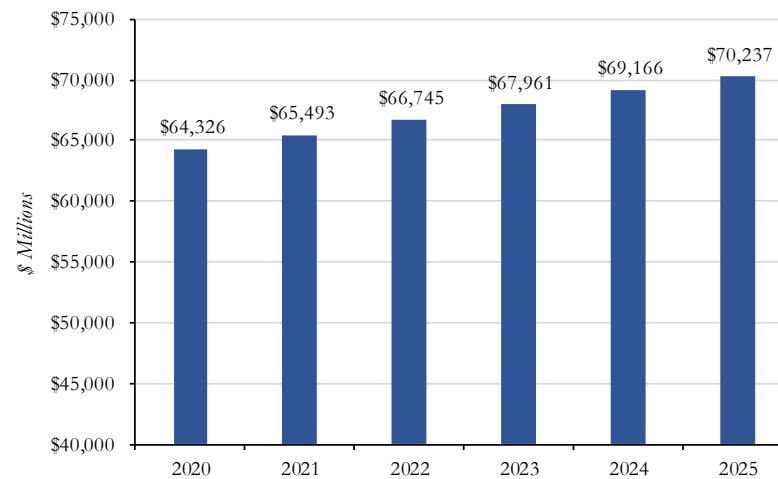
Transmission Line Construction Sector Observations & Outlook

- The Transmission Line Construction industry is anticipated to accelerate slightly over the five years to 2024. Increasing demand from private electric power markets will continue to support industry expansion, but a slowdown in local and state government investment is expected to drag on industry performance.
- Demand from private telecommunications customers will remain strong but is also anticipated to slow. Over the next five years, the value of utilities construction and demand from utilities are expected to increase at annualized rates of 0.2% and 2.4%, respectively, supporting industry growth.
- Additionally, the price of electric power is expected to rise an annualized 3.1% demonstrating rising demand for industry services.

Products and Services Segmentation



Transmission Line Construction Expected Revenue Growth



Water & Sewer Line Construction in the US

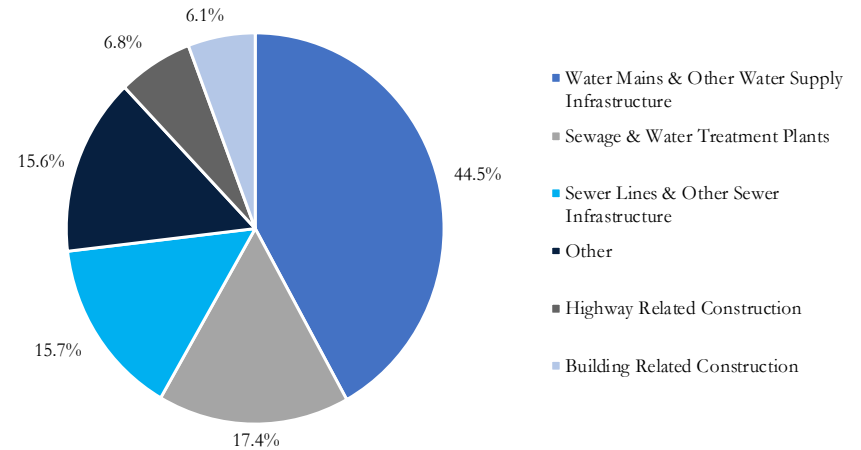
Water & Sewer Line Construction Sector Highlights

- 2019 revenue: \$52.3 billion
- 2019 profit: \$3.6 billion
- Annual growth 2014 – 2019: 3.2%
- Annual growth projected 2019 – 2024: 0.4%
- Key industry drivers: value of utilities construction, local and state government investment, population, value of residential construction, yield on 10-year treasury note.
- Main activities: water main construction, sewer construction, drain construction, water and sewer line construction management, water and sewage treatment plant construction, water and sewer line repair and maintenance.

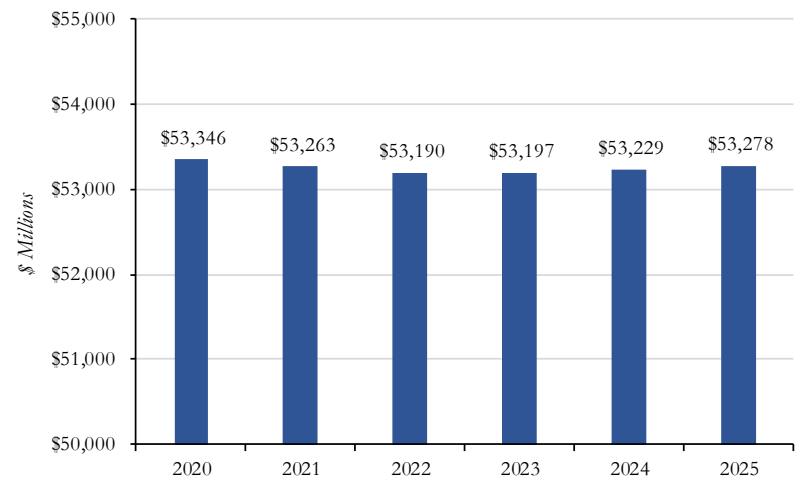
Water & Sewer Line Construction Observations & Outlook

- Over the five years to 2024, Water and Sewer Line Construction industry revenue is expected to grow at a diminished annualized rate of 0.4% to \$53.2 billion.
- The industry is expected to be held back by an annualized 0.5% decline in local and state government investment.
- Long-term drivers, including population expansion and heightened regulatory requirements, will also likely propel industry growth.
- The anticipated long-term expansion of the population in the West and Southwest regions, especially in previously low-density areas, will require industry operators to install new pipelines to channel water to these developing areas.

Products and Services Segmentation



Water & Sewer Line Construction Sector Expected Revenue Growth



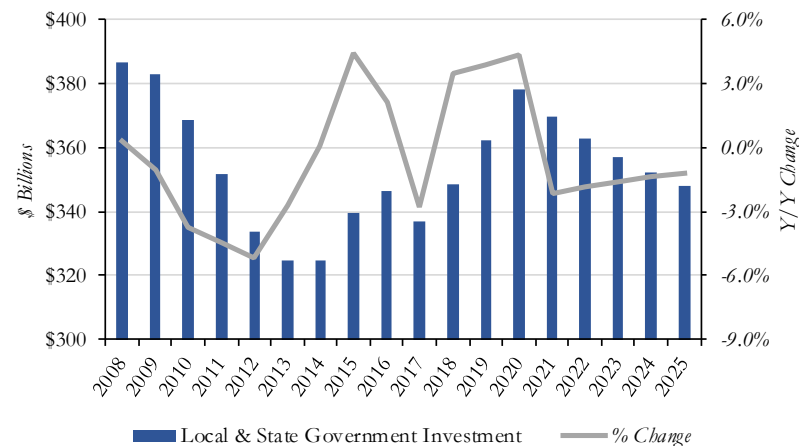
Sources: IBISWorld

Key Industry Drivers

Local & State Government & Investment

- Estimated value in 2019: \$362.23 billion
- 2014-2019 Compound Growth: 2.2%
- Forecast value in 2024: \$352.15 billion
- 2019-2024 Compound Growth: -0.6%
- Local and state government investment represents the total value of funds allocated by local and state governments for fixed assets such as structures, equipment and software.
- Data is measured in chained 2012 dollars.

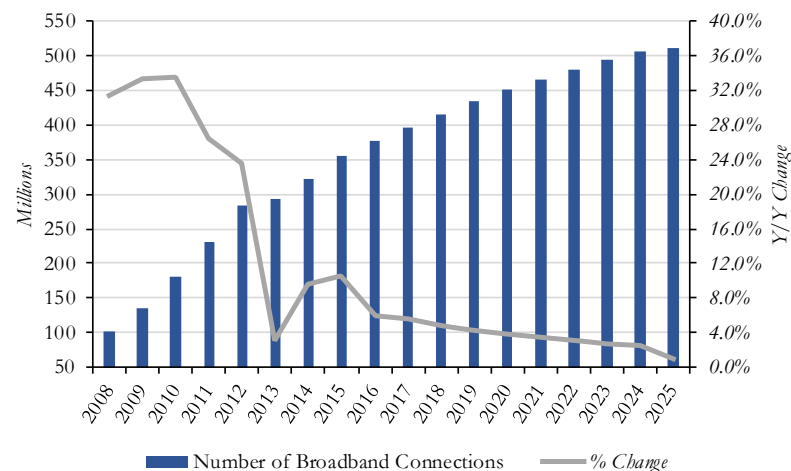
Local & State Government & Investment



Number of Broadband Connections in the US

- Estimated value in 2019: 433.7 million
- 2014-2019 Compound Growth: 6.2%
- Forecast value in 2024: 505.7 million
- 2019-2024 Compound Growth: 3.1%
- The number of broadband connections in the United States represents the total number of internet connection points (both fixed and mobile) with a speed of over 200 kilobits per second in at least one direction. This figure includes both households and businesses that have broadband connections.

Number of Broadband Connections in the US



Key Industry Drivers

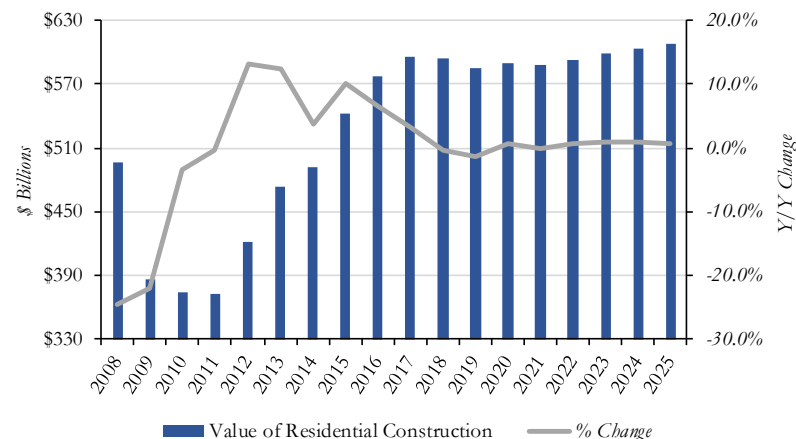
Value of Residential Construction

- Estimated value in 2019: \$585.45 billion
- 2014-2019 Growth: 3.5%
- Forecast value in 2024: \$603.73 billion
- 2019-2024 Growth: 0.6%
- This driver, formally known as real private residential investment in structures, measures spending by individuals and businesses on residential construction. This includes expenditure on single-family and multi-family structures, manufactured homes, dormitories, improvements on existing locations, brokers' commissions and net purchases of used structures.
- The data for this report is presented in chained 2012 dollars.

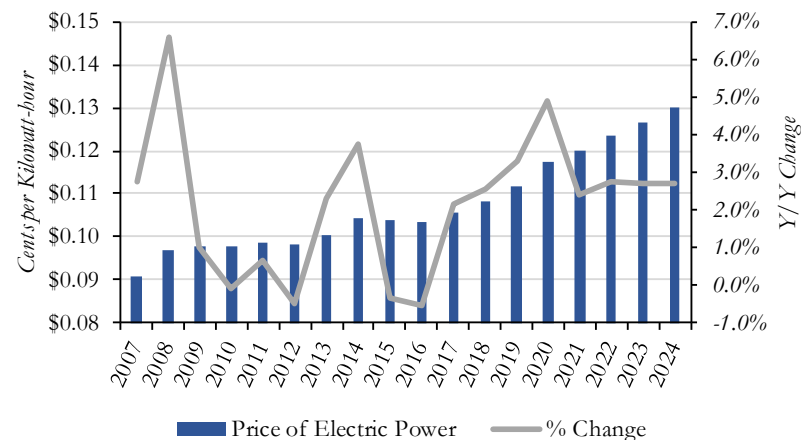
Price of Electric Power

- Estimated value in 2018: 10.82 cents per kilowatt hour
- 2013-2018 Compound Growth: 1.5%
- Forecast value in 2024: 12.66 cents per kilowatt hour
- 2019-2024 Compound Growth: 3.2%
- The price of electric power represents the average price of all electric power purchased by residential, commercial, industrial and transportation clients.

Value of Residential Construction



Price of Electric Power

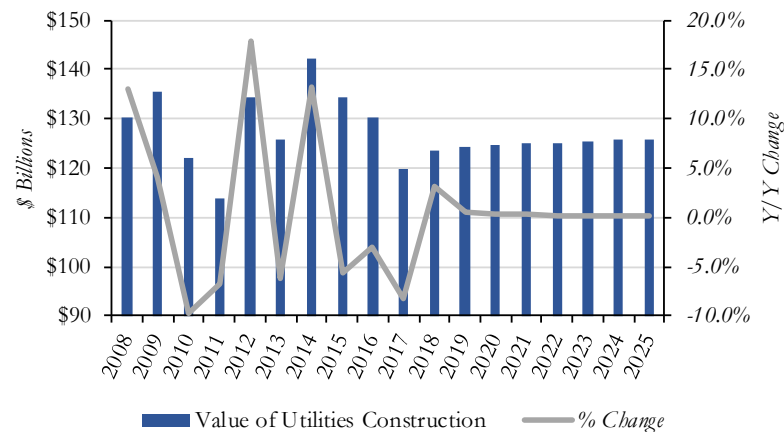


Key Industry Drivers

Value of Utilities Construction

- Estimated value in 2019: \$124.13 billion
- 2014-2019 Compound Growth: -2.7%
- Forecast value in 2024: \$125.62 billion
- 2019-2024 Compound Growth: 0.2%
- The annual public and private expenditure toward the construction of power, sewage or water supply infrastructure represents the value of utilities construction.
- Data is presented in chained 2012 dollars.

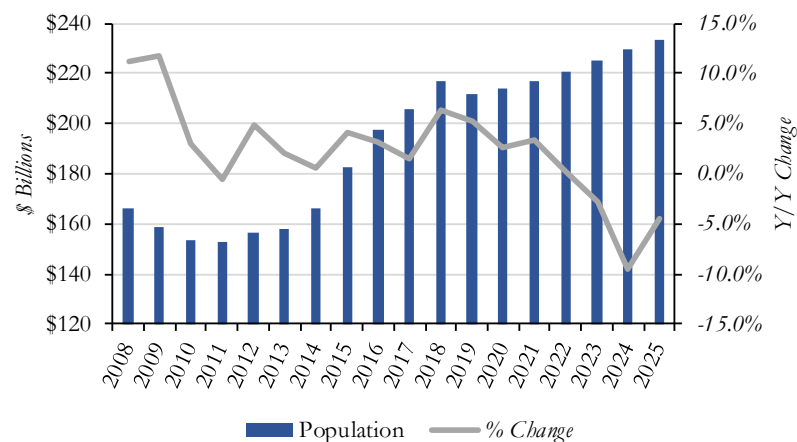
Value of Utilities Construction



Population of the United States

- Estimated value in 2019: 330.2 million people
- 2014-2019 Compound Growth: 0.7%
- Forecast value in 2024: 341.8 million people
- 2019-2024 Compound Growth: 0.7%
- The estimates provided refer to the population as of July 1st for that year. The forecasts in this report assume that fertility rates will be steady and that there will be a modest decline in the overall rate of net international migration.

Population of the United States



Key Industry Drivers

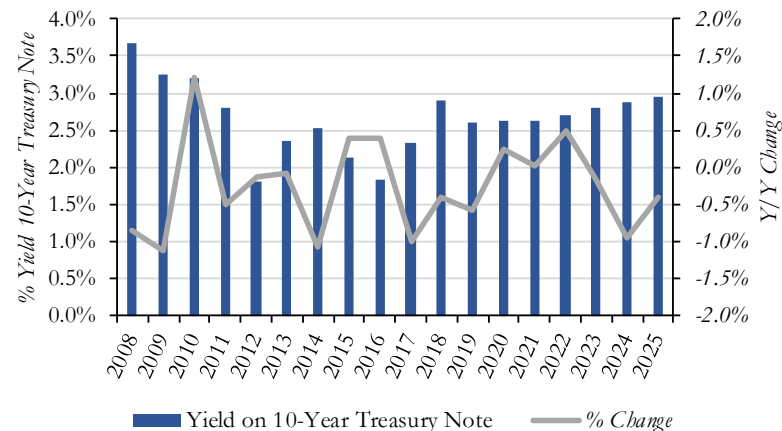
Yield on 10-year Treasury Note

- Estimated value in 2019: 2.6%
- 2014-2019 Compound Growth: 0.0%
- Forecast value in 2024: 2.9%
- 2019-2024 Compound Growth: 0.3%
- Treasury bills are the US government's means for borrowing money and are generally considered to be very safe investments. The yield is analogous to the current interest rate demanded by the market to hold this debt for 10 years.
- The values presented in this report are annual figures, derived from equally weighted monthly averages.

Demand from Utilities

- Power plants and electricity transmission companies represent the largest market for the Transmission Line Construction industry, which provides construction, repair and long-term maintenance work for these utility entities. As a result, growth in the utility sector, which incidentally also includes non industry-relevant water, sewage, natural gas and district heating entities, typically leads to increased demand for industry services. Demand from utilities is expected to rise in 2019, presenting a potential opportunity for the industry.

Yield on 10-year Treasury Note



Regulation in the Utilities Sector

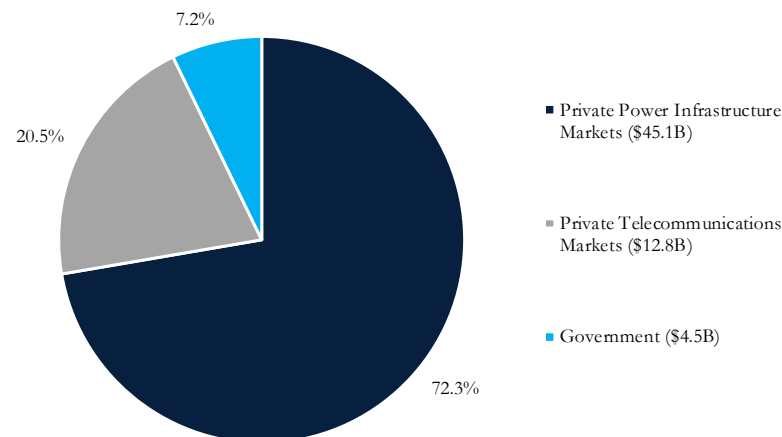
- This sector is highly regulated at both the state and national levels, and therefore, regulatory trends have a significant effect on performance. In terms of the Electric Power Transmission and Generation and Natural Gas Distribution industries, the Federal Energy Regulatory Commission (FERC) oversees and regulates any interstate activity within these industries and is the final line in terms of approval of various utilities. Additionally, at the state level, public utilities commissions oversee utility companies within each state and set the exact price at which retail electricity is sold within a state. These agencies have a direct effect on the performance of the utilities sector as a whole.

Major Market Segmentations

Transmission Line Construction Sector Major Market Segmentation

- The US Transmission Line Construction industry has three major markets: private power infrastructure markets, private telecommunications markets and government. Private sector infrastructure investment is expected to account for over 90.0% of total revenue in 2019; government infrastructure projects are expected to contribute to the majority (6.6%) of the total government (7.2%) spend. Private sector clients include local and long-distance telecommunications, electric power and cable TV providers, such as AOL, Time Warner, AT&T, Georgia Power, NV Energy, Puget Sound Energy and Sprint.

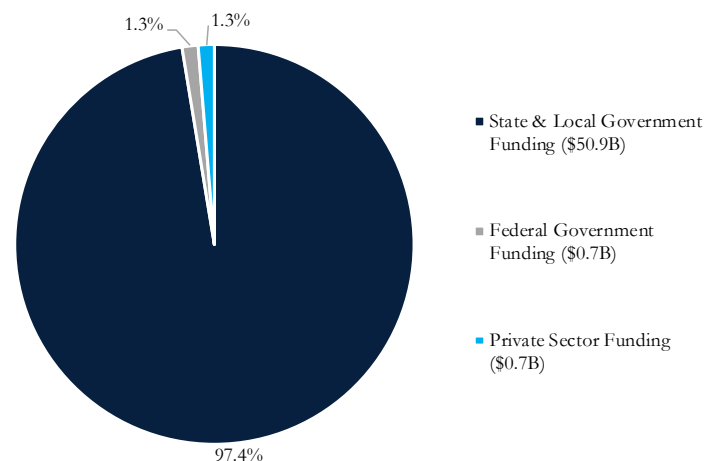
Transmission Line Construction Sector Major Market Segmentation



Water & Sewer Line Construction Sector Major Market Segmentation

- Construction for public sector-funded projects accounts for the vast majority of demand, amounting to 98.7% of annual industry revenue, with the vast majority of work originating at the state and local levels. State and local funding accounts for an estimated 97.4% of industry revenue, while federal level funding accounts for just 1.3% of industry revenue. Public sector funding has increased marginally as a share of industry revenue, with declines being exhibited in federal funding while recovering state and municipal budgets have caused the state and local segment to increase its share of industry revenue. Over the next five years, in the absence of a long-term federal funding solution, and in the context of softening state and local investment activity, it is expected that the private segment share will rise.

Water & Sewer Line Construction Sector Major Market Segmentation



Utility Sector Highlights

Utilities Sector Highlights

- Over the five years to 2018, the sector has experienced stagnant growth due to paltry electricity demand and drastic declines in the price of natural gas. Despite these negative trends, an emphasis on clean energy regulation benefited many operators in the electricity-generation industry cluster. Nevertheless, companies that generated electricity from coal did suffer due to these trends.
- Over the next five years, the Utilities sector is expected to pick up steam and grow more quickly. General growth in electricity demand, increasing electricity prices and a rebound in the price of natural gas are expected to provide a boon to operators in this sector.

Electric Power Consumption

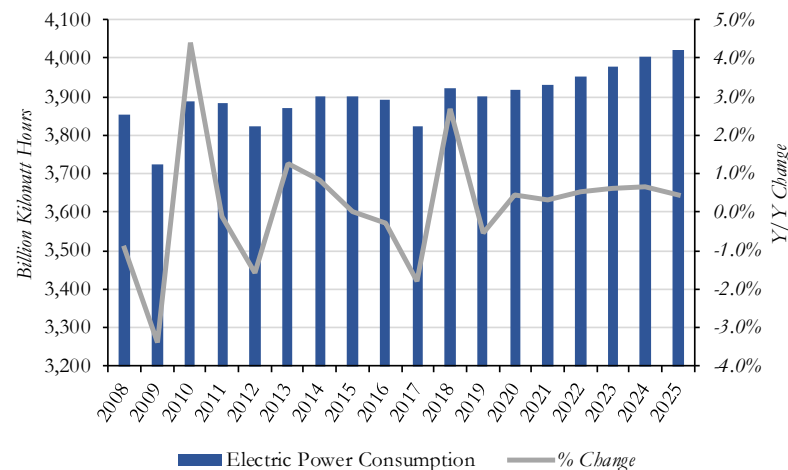
- Estimated value in 2019: 3,901.9 Billion kilowatt hours
- 2014-2019 Compound Growth: 0.0%
- Forecast value in 2024: 4,005.0 Billion kilowatt hours
- 2019-2024 Compound Growth: 0.5%
- Electric power consumption represents the total amount of electricity consumed in the United States. The data, which is measured in kilowatt hours (kWh), is sourced from the US Energy Information Administration.

Utilities Select Sector Index Price Latest Twelve Months

Utilities Select Sector Index - Price



Electric Power Consumption



Public Comparable Companies - Transmission, Water, & Sewer Line Construction

(in \$ Millions, except per share data)

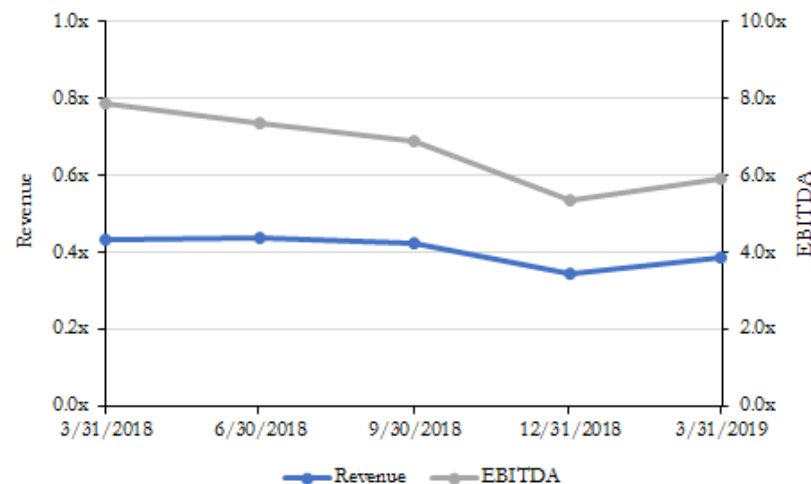
Selected Guideline Public Companies									
Company Name	Stock Price	Market Capitalization	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Revenue Multiple	LTM EBITDA Multiple	LTM Revenue Multiple - Adjusted	LTM EBITDA Multiple - Adjusted
<i>Data as of 3/31/19</i>									
QUANTA SVCS INC	\$ 37.74	\$ 5,527	\$ 6,830	\$ 11,561	\$ 877	0.6x	7.8x	0.4x	5.4x
MASTEC INC	\$ 48.10	\$ 3,635	\$ 5,223	\$ 7,031	\$ 735	0.7x	7.1x	0.5x	5.0x
MYR GROUP INC DEL	\$ 34.63	\$ 577	\$ 689	\$ 1,654	\$ 90	0.4x	7.7x	0.4x	6.9x
JACOBS ENGR GROUP INC	\$ 75.19	\$ 10,475	\$ 12,732	\$ 14,449	\$ 1,040	0.9x	12.2x	0.6x	7.8x
FLUOR CORP NEW	\$ 36.80	\$ 5,144	\$ 5,190	\$ 18,536	\$ 733	0.3x	7.1x	0.2x	4.9x
AECOM	\$ 29.67	\$ 4,700	\$ 7,960	\$ 20,531	\$ 845	0.4x	9.4x	0.3x	6.3x
PRIMORIS SVCS CORP	\$ 20.68	\$ 1,059	\$ 1,362	\$ 3,097	\$ 232	0.4x	5.9x	0.4x	4.9x
Average								0.4x	5.9x
Median								0.4x	5.4x

Select GPC Income Statement Comparison

LTM Ended 3/31/2019

	Average	Median
Total Revenue	100.0%	100.0%
Total Cost of Goods Sold	89.8%	89.2%
Gross Profit	10.2%	10.8%
Total Operating Expenses	5.6%	6.0%
EBIT	4.6%	4.8%
Net Interest Expense	-0.7%	-0.6%
Other Income (Expense)	-0.3%	-0.1%
Income Tax Expense	-1.1%	-1.1%
Extra. Items / Disc. Ops. / Minority Interest	-0.2%	-0.1%
Net Income	2.3%	2.0%
EBITDA	6.6%	7.2%
Capital Expenditures	2.0%	2.6%

Latest Twelve Months Average Multiples Trend



Select Comparable Transactions within the Sector

Date	Target	Buyer(s)	Target Business Description
7/10/19	Todd Cable Construction LLC	FirstLight Fiber, Inc.; Antin Infrastructure Partners SAS	Todd Cable Construction LLC provides wireline and wireless communication services. It offers wireless, manhole installation, replacement or repair, site development, horizontal and vertical rock drilling, cable plowing, conduit systems, aerial pole line service and construction and emergency services. The company was founded in 1997 and is headquartered in Newport, NY.
5/2/19	Lineal Star Holdings LLC	Camber Energy, Inc.	Lineal Star Holdings LLC provides pipeline construction, maintenance, and rehabilitation services. It offers pipeline integrity management programs; fabrication and installation of launchers and receivers; hot tap interconnects and stopples; pipeline replacements; specialty onsite and offsite field fabrication; well pad cleaning and developments; and expanded downstream services. The company is headquartered in Houston, TX.
5/2/19	Stonewall Gas Gathering LLC	DTE Birdsboro Pipeline LLC	Stonewall Gas Gathering LLC constructs mile pipeline system to gather natural gas from central delivery points in the Marcellus Shale play in West Virginia. The company is headquartered in
4/16/19	PowerComm Construction, Inc.	Powercomm Construction, Inc. /Kwasnik/	PowerComm Construction, Inc. provides construction services. It provides construction services to electric utilities, internet service providers, turf vendors, and telecommunications and cellular carriers. The firm offers construction and maintenance of above ground and underground power transmission and distribution, fiber-optic installation and maintenance and cellular communications tower and antenna construction and maintenance services. The company is headquartered in Woodbridge, VA.
4/10/19	Waterline Renewal Technologies, Inc.	Behrman Brothers Management Corp.; Waterline Renewal Technologies, Inc. /Private Group/	Waterline Renewal Technologies, Inc. provides trenchless rehabilitation of degraded infrastructure through differentiated products, technologies and services to prevent inflow and infiltration of sewer systems and potable water pipelines. The company is headquartered in Rosemont, IL.
4/1/19	Vertical Limit Construction LLC	QualTek USA LLC; Brightstar Capital Partners LP	Vertical Limit Construction LLC provides construction and technical services to the telecommunications industry. The firm serves wireless, energy, infrastructure and government industries. The company was founded in 2002 and is headquartered in Wamamingo, MN.
2/11/19	Hamlet Construction LLC	Vectren Corp.; Miller Pipeline LLC	Hamlet Construction LLC provides underground utility contracting services. It engages in underground utility work, including new development of commercial and residential subdivisions, commercial sites and roadways. The company was founded by William Vandeven in 1973 and is headquartered in Ocala, FL.
2/8/19	Dinwiddie Cattle Co., LLC /Dinwiddie Assets/	Intrepid Potash-New Mexico LLC	Provides water infrastructure services
1/3/19	COG Operating LLC /Produced Water Assets/	Five Point Energy LLC; WaterBridge Resources LLC	Provides water supply
12/27/18	Inland Pipe Rehabilitation LLC	JF Lehman & Co., Inc.	Inland Pipe Rehabilitation LLC provides underground pipe rehabilitation services. It offers trenchless rehabilitation services and technologies to repair and maintain critical water, wastewater and industrial pipe infrastructure. The firm's services include pipe bursting, cured in place pipe, expanda, sliplining, tv and sonar inspections and underground cleaning. The company was founded in 1984 and is headquartered in Conyers, GA.
11/26/18	LineTec Services LLC	Southwest Gas Corp.; Centuri Construction Group, Inc.	LineTec Services LLC provides recurring maintenance, refurbishment, upgrade and installation services for electrical transmission and distribution infrastructure. The firm's services include transmission lines, distribution lines and storm restoration. The company was founded by Mick J. Dubea and is headquartered in Alexandria, LA.
10/16/18	Site Resources LLC	QualTek USA LLC; Brightstar Capital Partners LP	Site Resources LLC engages in the provision of cell site construction, upgrades, expansion, audits, testing, inspections, repairs, and maintenance of wireless network infrastructures. The firm serves the wireless telecommunications industry. The company was founded in 1998 and is headquartered in Apex, NC.
10/9/18	Loenbro, Inc.	Talkwind Management LP	Loenbro, Inc. provides pipeline construction and oilfield services. The firm offers pipeline, industrial construction, fabrication, industrial insulation, inspection services, and instrumentation and electrical services. The company was founded by Paul Leach and Jon Leach in 1998 and is headquartered in Black Eagle, MT.
9/10/18	Culy Contracting LLC	Midas Utilities LLC	Culy Contracting LLC provides water & sewer construction services. It offers water mains, sewer mains, pipeline services, and agricultural services. The company was founded in 1978 and is headquartered in Winchester, IN.
8/22/18	PowerTeam Services LLC	Clayton Dubilier & Rice LLC	PowerTeam Services LLC provides electric and gas utility services. Its services include gas distribution, gas pipeline, electric distribution, and electric transmission services. The firm also offers outsourced maintenance, repair, and installation services for blue-chip natural gas and electric utilities. The company was founded in 2010 and is headquartered in Cary, NC.
7/3/18	Huen Electric, Inc.	MYR Group, Inc.	Huen Electric, Inc. provides electrical construction and engineering services. It offers electrical construction, preconstruction, pre fabrication, technology solutions, design and build, BIM, and integrated project delivery. The company was founded by Michael F. Hughes in 1983 and is headquartered in Broadview, IL.
6/1/18	Jennings Engineering & Construction	Midas Utilities LLC	Part of Midas Utilities LLC, Jennings Engineering & Construction is a company headquartered in the United States that provides underground utility construction services.
3/19/18	Miller Pipetech	Warren Equity Partners LLC; Hydromax USA LLC	Miller Pipetech engages in the provision of underground utility solutions. It offers pipeline investigation and cleaning services, and residential and commercial plumbing services from drain cleaning to gas line repair. The company was founded in 2006 and is headquartered in New Brighton, PA.
3/6/18	Aloha Island Cable, Inc.	Focus Universal, Inc.	Aloha Island Cable, Inc. provides cabling and telecommunications consulting services. Its services include structured cabling systems, cat-5e, 6 installs, cable plant design, laser infrared wireless, wireless networks T1-OC12, fiber optics, OSP installations, extended warranties, phone systems and CATV/CCTV systems. The firm serves education, enterprise, government and health care industries. The company was founded in 1988 and is headquartered in Torrance, CA.
7/5/17	Kelly Cable of New Mexico, Inc.	CIVC Partners LP; Peak Utility Services Group,	Kelly Cable of New Mexico, Inc. provides water, sewer and utility lines construction services. The company was founded in 1987 and is headquartered in Albuquerque, NM.
4/3/17	Rockies Express Pipeline LLC	Tallgrass Energy Partners LP	Rockies Express Pipeline LLC provides water, sewer and pipeline construction services. It develops and owns Rockies Express, a natural gas pipeline system that provides transportation from Rio Blanco County, Colorado to Monroe County, Ohio. The firm provides transportation, interruptible transportation, park and loan, pooling and wheeling, and booster compression services. The company was founded in 2004 and is headquartered in Lakewood, CO.
3/3/17	Texstar Enterprises, Inc.	Dycom Industries, Inc.	Texstar Enterprises, Inc. provides utility construction and contracting services. The firm's services include fiber optics, maintenance, premise wiring, outside plant construction, commercial installation, and design & engineering services. The company was founded in 1989 and is headquartered in Selma, TX.

Median EBITDA Multiples Trend

Average Number of Months to Close Deals

2017	2018
8.7	9.3

Breakdown of Cash at Close

	2017		2018	
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
Cash*	82%	86%	78%	85%
Seller Financing	10%	17%	10%	11%
Earn Out	0%	4%	1%	3%
Retained Equity	0%	4%	0%	4%

* Combination of buyers equity and senior debt

Advisor, Investor, and Executive Surveys

- 79% expect increased average number of deals in 2019 (up from 70% a year ago)
- 83% expect strong market to expire within the next 24 months (33% say its within 12)
- 19% of transactions valued below \$2M were business services – highest proportion
- 27% of transactions valued above \$2M were in manufacturing – highest proportion
- 66% of investors/buyers use adjusted EBITDA multiple when valuing privately-held businesses
- Top 3 reasons deals didn't close were valuation gap (36%), unreasonable seller/buyer demand (20%) and no market for business (11%)

EBITDA	Manufacturing	Construction & Engineering	Consumer Goods & Services	Wholesale & Distribution	Business Services	Basic Materials & Energy	Healthcare & Biotech	Information Technology	Financial Services	Media & Entertainment	Average
< \$1M	5.0x	3.5x	4.3x	5.5x	3.0x	5.0x	4.3x	7.0x	5.5x	4.0x	4.7x
\$1M - \$5M	5.5x	4.5x	5.5x	5.5x	4.8x	5.5x	5.5x	7.5x	6.0x	5.5x	5.6x
\$5M - \$10M	6.5x	5.0x	5.8x	5.8x	5.3x	6.0x	7.3x	8.0x	7.5x	6.0x	6.3x
\$10M - \$25M	7.5x	6.5x	6.5x	7.5x	6.0x	6.0x	7.5x	8.5x	7.8x	6.5x	7.0x

Sources: Pepperdine Private Capital Markets Report, PitchBook Data, GF Data M&A Report November 2018, Market Pulse