



# UTILITY SERVICES

Q2 2020 QUARTERLY SECTOR UPDATE

**HW** Harris Williams



# SELECT UTILITY SERVICES M&A TRANSACTIONS

**Closed April 14, 2020**



## **New Mountain Capital acquires Pearce Communications**

- Pearce is a leading provider of infrastructure maintenance, repair, and engineering services to telecommunications customers
- Pearce also announced the simultaneous acquisition of MaxGen Energy Services and World Wind & Solar, providers of repair and maintenance services for utility-scale renewable wind and solar assets as well as electric vehicle charging infrastructure

**Closed April 9, 2020**



## **PowerTeam Services acquires Miller Pipeline and Minnesota Limited (collectively, “MVerge”)**

- Miller Pipeline and Minnesota Limited (collectively, “MVerge”) are leading natural gas distribution and transmission pipeline contractors
- PowerTeam Services is a portfolio company of Clayton Dubilier & Rice

**Closed March 30, 2020**



## **Calera Capital acquires Thayer Power & Communication Line Construction**

- Thayer is a leading provider of mission critical repair, maintenance, and upgrade services for the utility and telecom industries
- The company operates in three primary lines of business: electric utility services, fiber placement and other wireline telecom services, and small cell site deployment and related wireless services

**Closed February 25, 2020**



## **EN Engineering acquires Krestel Engineering**

- Kestrel Power Engineering is a leading provider of specialized consulting services to the North American electric power generation market
- EN Engineering is currently a portfolio company of Kohlberg & Co.

**Closed February 11, 2020**



## **Enertech acquires CMS Wireless**

- ONCAP's Enertech has acquired CMS Wireless, a full service solutions provider to the wireless industry
- Also included in the transaction is the associate brand of CMS, Communication Integration Specialists

**Closed February 6, 2020**



## **E Source acquires UtiliWorks**

- Align Capital Partners' utility intelligence platform, E Source, has acquired UtiliWorks Consulting, an advisory firm that partners with water, electric, and gas utilities and municipalities
- UtiliWorks specializes in advanced metering infrastructure, smart energy, smart water, and smart city initiatives with expertise in the areas of technology assessment, business case development, vendor selection, implementation, and stakeholder education



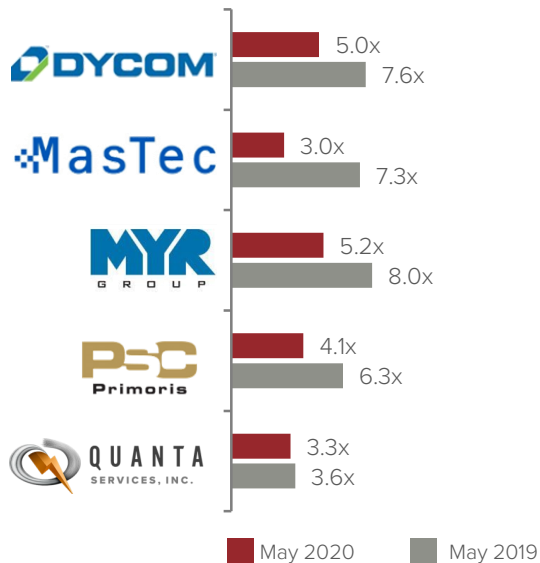
# UTILITY SERVICES PUBLIC COMPANY VALUATIONS

## EV / EBITDA MULTIPLE

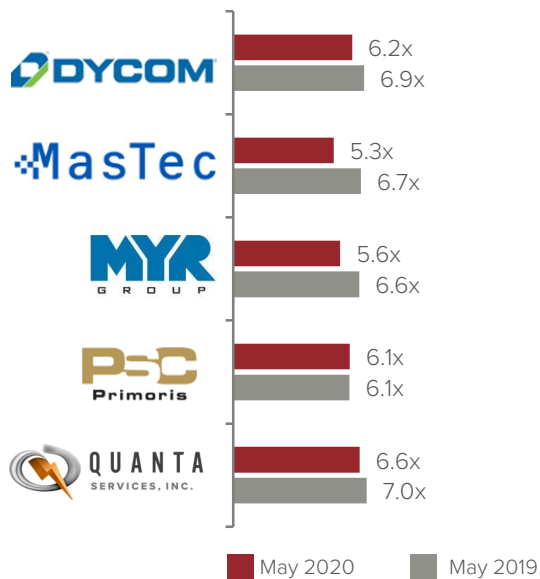
(Median of Dycom Industries, MasTec, MYR Group, Primoris Services, and Quanta Services)



## EV / LTM EBITDA MULTIPLE

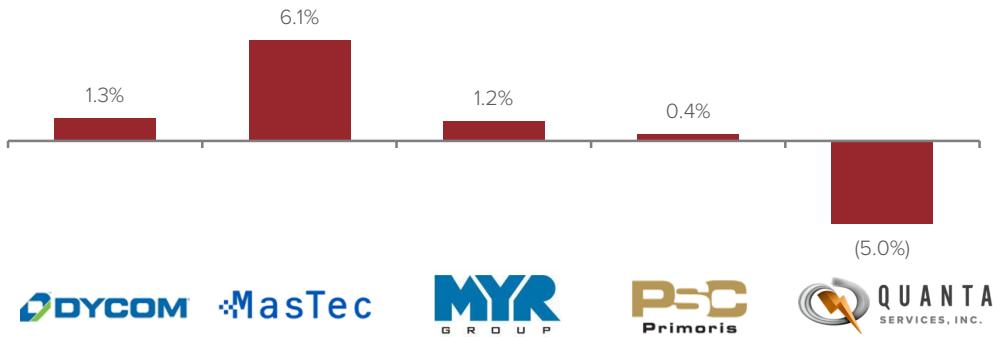


## EV / NTM EBITDA MULTIPLE

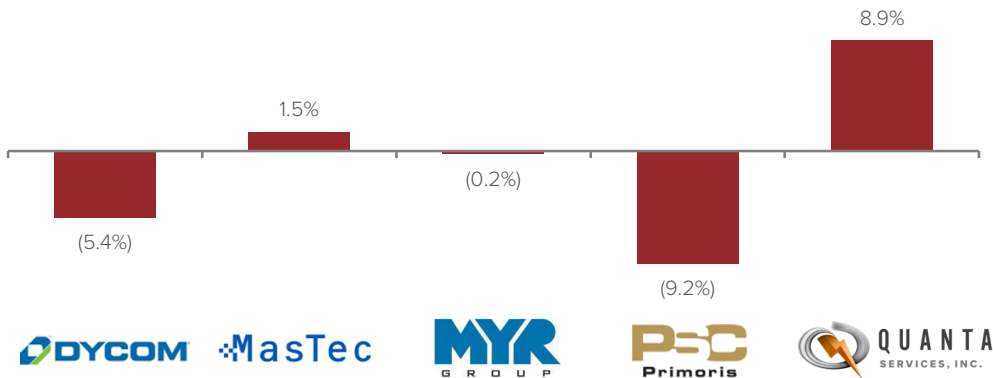


# UTILITY SERVICES PUBLIC COMPANY BENCHMARKING

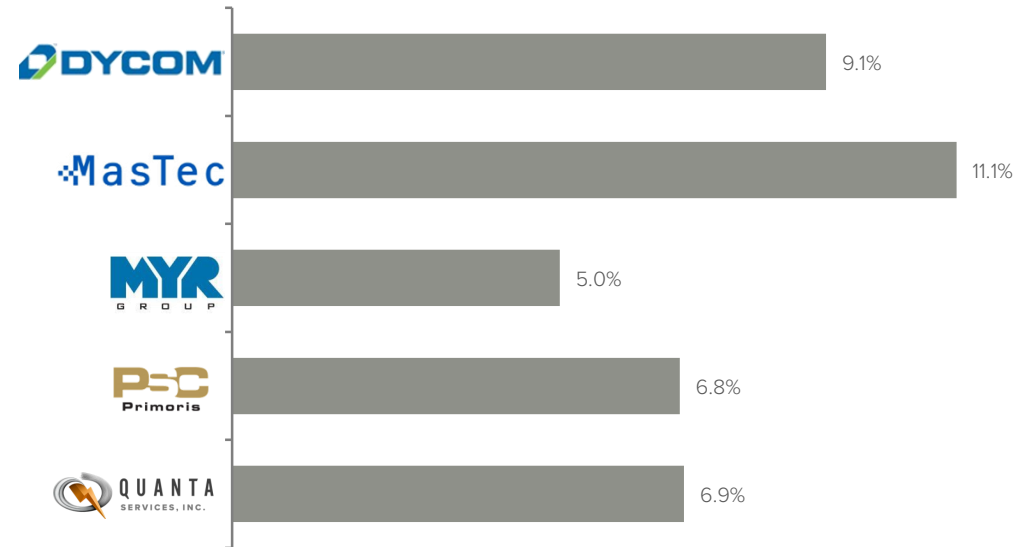
## NTM REVENUE GROWTH FORECAST<sup>1</sup>



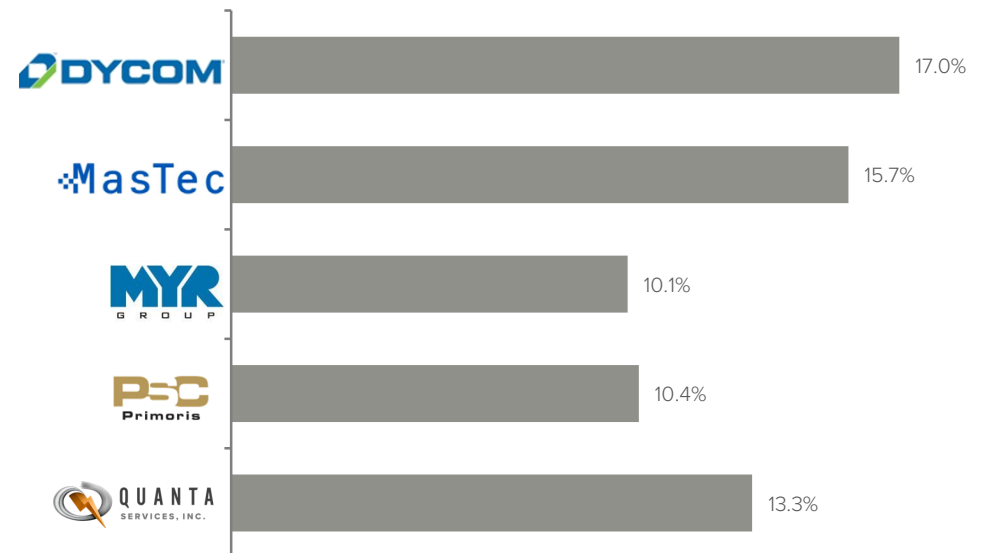
## NTM EBITDA GROWTH FORECAST<sup>1</sup>



## LTM EBITDA MARGIN



## GROSS PROFIT MARGIN



1) CapIQ Street Consensus Estimate

# WHAT WE'RE READING

## Pandemic on Utility Demand: How utilities can brace for impact from the effects of the coronavirus

The coronavirus has impacted a number of industries in unprecedented ways, with electric utilities around the globe being no exception. Utilities, in particular, are faced with handling supply chain disruptions, managing a remote workforce, minimizing the risk of infection, and operating with a reduced field workforce. Furthermore, as social distancing prompts educational institutions to move to virtual instruction, corporations to shift to a work-from-home model, restaurants to pivot to take-out only operations, and manufacturers to reduce or halt capacity, utilities will experience significant shifts across the Commercial, Industrial and Residential customer demand profiles. This, in turn, presents a larger economic threat that utilities need to confront in order to ensure success for the long term.

[Oliver Wyman](#)

## Trump's Order to Secure Power System Met with Favor, Uncertainty in Utility Industry

U.S. President Donald Trump signed an executive order on May 1, 2020, that establishes oversight of foreign-made equipment used in the United States bulk-power system. The order stated that Energy Secretary Dan Brouillette would assemble a task force to examine current procurement policies, identify threats to security, and establish risk-management protocols to inform future procurement.

This direction comes as little surprise to the power industry, following the Administration's previous crackdowns on telecommunications providers sourcing foreign-made systems and equipment deemed by the Secretary of Commerce as posing a national security risk.

[T&D World](#)

## Electric Co-ops Face \$10 Billion Revenue Loss by 2022 Due to COVID-19

COVID-19 is projected to cost electric cooperatives \$10 billion in load loss and unpaid bills through 2022, new research by NRECA finds. Economic disruptions related to the pandemic will drive electric co-op sales down by 6.1% in 2020, 6% in 2021, and 3% in 2022, for an average loss of 5% over the period when compared to pre-COVID-19 projections, according to NRECA estimates.

This loss of electric load will slash co-op sales revenue by \$7.4 billion, while a surge in unemployment, combined with a moratorium on disconnections, will drive up unpaid electric bills to \$2.6 billion through 2022, the report says.

[NRECA](#)

## Grid Resiliency for Today's Utilities

Today's utilities continue to face increasing challenges as the grid transforms to a more digitally controlled environment. The grid of the past developed over many years with several key tenets: safety, low cost and reliability. These tenets, over many decades, led to the adoption of electricity across most sectors of modern industrialized society. Electricity use allowed us to gain efficiency and reduce human toil due to its form and function. Over time, reliability continued to improve and cost continued to fall. Every sector now leans on electricity to function and demands ever-increasing reliability.

[T&D World](#)

## Electric Utility Streamlines 5G Colocation on Nontraditional Assets

Mobile connectivity has permeated our lives and lifestyles, with devices like fitness trackers, smart refrigerators, and remote-controlled home heating systems. Internet of Things (IoT) devices currently use cloud-connected cellular networks like 4G LTE, but they are limited by an overcrowded network with insufficient bandwidth. With recent and future 5G deployments, it will help facilitate technologies from autonomous cars to Smart Cities, industrial IoT and immersive education. 5G will also heighten experiences for existing applications, bring about the evolution of seamless connectivity and help increase data speeds and network reliability.

Interestingly, Georgia Power, headquartered in Atlanta, Georgia, has found an opportunity to proactively offer its nontraditional vertical assets to accelerate 5G build-out for major telecommunication providers. With its 2.5 million customers, this electric utility is on the forefront of helping communications service providers (CSPs) with their 5G efforts.

[ISE Mag](#)

# UTILITY SERVICES PUBLIC COMPANY OUTLOOK

Company	Key Takeaway	Earnings Call Excerpts
	<p>Given the Company's fiscal year ends in January, more than half of Dycom's quarter occurred during the pandemic. Despite the current environment, the Company believes there are still strong market tailwinds surrounding 5G</p>	<p>"We expect the COVID pandemic will reinforce and eventually accelerate pre-pandemic industry trends, including deployment of fiber deeper into existing telecommunications networks, significant investment in converged wireless/wireline networks and increased wireless capacity and capability through the rollout of 5G technologies."</p> <p>- Steven Nielsen, CEO, May 19, 2020</p>
	<p>While COVID-19 has led to some short-term project delays due to permitting slowdowns, MasTec believes both the fundamentals and the investment profile of the industry remain unchanged</p>	<p>"We've seen a number of bids that we thought would come out in this period that are now being delayed a month or two - not huge delays, but we think there's going to be a huge pent-up demand. When everything opens up, there's going to be a lot of bids that are going to be coming out at the same time. There's a lot of work in [electric transmission]... And I don't think we're going to see a change in the investment profile of that market anytime soon."</p> <p>- Jose Ramon Mas, CEO &amp; Director, May 1, 2020</p>
	<p>MYR has seen only a minimal impact to T&amp;D operations but noted that it is still too early to tell what impact COVID-19 will ultimately have on project timing</p>	<p>"Across the United States, we are encouraged that the project execution and bidding opportunities have remained active to date with minimal impact from the COVID-19 pandemic... We continue to execute work under long-term master service agreements with several utility clients. We anticipate a steady stream of distribution work for the foreseeable future as the need for grid hardening continues."</p> <p>- Todd Cooper, Senior VP &amp; COO of Transmission and Distribution, April 30, 2020</p>
	<p>Primoris noted that decreases in commercial customer demand for natural gas could result in delayed or reduced new project budgets, but O&amp;M work will continue</p>	<p>"What we're hearing from those [gas utility] clients is not that they're making cuts to their capital spending programs, but that they might if the country doesn't open back up or their respective states don't open up... They may not have the need [for new capital projects]... As far as replacement or maintenance of existing systems or old systems, that work is going to continue."</p> <p>- Tom McCormick, CEO, President &amp; Director, May 5, 2020</p>
	<p>COVID-19 has had a minor impact on gas and electric operations in cities experiencing strict shelter-in-place orders, but the Company does not expect a meaningful impact in the long run</p>	<p>"Demand for our Electric Power services remains solid, and we have not seen meaningful reductions in the utility CapEx budgets. Utilities continue to actively deploy capital into their systems to modernize, harden, expand and adapt to current and future needs."</p> <p>"Utilities are in the early stages of multi-decade modernization programs to replace aging gas distribution infrastructure to meet regulatory requirements aimed at improving reliability and safety. However, as shelter-in-place orders were implemented, community restrictions impacted our operations in certain metro markets."</p> <p>- Duke Austin, President, CEO, COO &amp; Director, May 7, 2020</p>

# IMPACT OF COVID-19 ON UTILITY SPENDING

While many utilities experienced a net decrease in demand as a result of COVID-19, they are continuing to invest billions of dollars into maintenance, upgrades and new capital projects in line with plan.

## Investor Owned Utilities (IOUs)<sup>1</sup>

Top 10 IOUs	Current Capex Outlook	Commentary on Impact of COVID-19
	Original capex plan of \$26 billion for 2020 to 2024 reduced by \$125mm for utility and \$125mm for generation (less than 2% of total capex)	While April utility load data is down ~8% year over year, Exelon is continuing to invest in grid reliability and efficiency
	The Company is forecasting annual capital investments of ~\$7 billion through 2024, noting no impact from COVID-19 to planned capex and opex	Continuing to execute on planned capex programs, including the Wildfire Mitigation Plan, which focuses on system hardening, enhanced vegetation management, enhanced inspections and situational awareness
	Duke's five-year, \$56 billion capital investment plan remains intact	Duke reaffirmed the importance in investing in its strategic investment pillars – generate cleaner energy, modernize the energy grid and expand natural gas infrastructure – despite the current pandemic
	The Company's \$40 billion five-year capital investment plan is unchanged	The capex budget is tied to making the T&D system more resilient, investing in future generation and environmental matters that Southern Company has no plans to defer or cancel
	Sempra's current capex forecast of \$11.9 billion over five years remains unchanged, and the Company is facing upward pressure to construct more transmission interconnections	While the Company's Mexican operations may experience some delays, the U.S. operations are maintaining the capex guidance
	Dominion expects no material changes to their long-term capex plan of \$43B from 2020 to 2035 for wind, solar and energy storage and \$16B from 2020 to 2030 for other growth capex	Virginia load has proved to be extremely resilient through COVID-19, and Dominion is not expecting any major COVID-19-driven revenue impacts associated with reduced load in that market
	FirstEnergy indicated there are no changes to capex plans, and plans to deploy annual capital investments of \$3 billion	Not experiencing any material supply-chain impacts from COVID-19, and continuing to make capital investments in line with plan to repair and modernize T&D infrastructure
	Xcel indicated no changes to the capex forecast and plans to invest ~\$22 billion through 2024 in capital projects	Implementing cost-cutting initiatives to mitigate impact from COVID-19, including 4% to 5% decline in O&M expenses in 2020
	While there is no change to capex forecast of \$33 billion for 2020 to 2024, \$500 million planned for 2020 has shifted to future periods	Reduced 2020 O&M expense by \$100 million, but maintained spending on infrastructure like transmission where they are investing in customer resilience and reliability
	Edison reaffirmed its capex guidance of \$19.4 billion to \$21.2 billion from 2020 through 2023	Continuing to execute on plans to harden infrastructure, as well as invest in the safety and resiliency of the grid and prepare for the clean energy future

<sup>1</sup>) Ranking based on customer accounts



# HARRIS WILLIAMS OVERVIEW

## GLOBAL ADVISORY PLATFORM

- Founded in 1991
- 350+ professionals across eight offices globally
- 170+ closed transactions in the last 24 months
- 10 dedicated industry groups



## HW UTILITY SERVICES SECTOR FOCUS AREAS

### ELECTRIC TRANSMISSION & DISTRIBUTION

- Overhead Infrastructure Construction & Maintenance
- Underground Infrastructure Construction & Maintenance
- Substation Protection & Control Services
- Substation NETA Maintenance
- Electric Infrastructure Testing & Inspection

### GAS TRANSMISSION & DISTRIBUTION

- Gas Transmission Construction & Maintenance
- "Last Mile" Gas Distribution Construction & Maintenance
- Construction Management & Project Management Services
- Nondestructive Testing & Inspection Services
- Regulatory Compliance Services

### POWER PRODUCTS

- Component Manufacturing
- Power Product Distribution
- Equipment Refurbishment and Resale
- Customized Product Design and Manufacturing Services

### TELECOMMUNICATIONS

- Tower Planning & Design Services
- Telecom Infrastructure Testing & Inspection
- Fulfillment & Installation Services
- Data Center Construction & Maintenance

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## CONTENTS

- [M&A TRANSACTIONS](#)
- [US PUBLIC COMPANY VALUATIONS](#)
- [US PUBLIC COMPANY BENCHMARKING](#)
- [WHAT WE'RE READING](#)
- [US MARKET OUTLOOK](#)
- [IMPACT OF COVID ON UTILITY SPENDING](#)

## RECENT PUBLICATIONS

- [UTILITY T&D REPORT](#)

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DISTRIBUTION**

**TRANSPORTATION  
& LOGISTICS**

**BUILDING PRODUCTS  
& MATERIALS**

**CONSUMER**

**HEALTHCARE  
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## Sources

1. CapIQ

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