



UTILITY SERVICES

SECTOR UPDATE, Q2 2023

HW Harris Williams

WHAT WE'RE READING

Why It's so Hard to Build New Electrical Transmission Lines in the U.S.

"Building transmission lines in the U.S. is like herding cats. All of the stakeholders in the construction of a new line — utility companies, regulators, landowners — have to come to an agreement, and they may have competing interests. Ultimately, electricity customers pay for new transmission lines via a surcharge in their electric bill. The amount must be approved by regulators."

"Right now, over 1,000 gigawatts worth of potential clean energy projects are waiting for approval — about the current size of the entire U.S. grid — and the primary reason for the bottleneck is the lack of transmission," Bill Gates wrote in a recent blog post about transmission lines."

Read Here: [CNBC](#)

FERC OKs Cold Weather Reliability Standards for U.S. Generators, but Orders NERC to Address Shortcomings

"The Federal Energy Regulatory Commission Thursday approved two extreme cold weather reliability standards for U.S. generators in response to Winter Storm Uri in 2021 when about 4.5 million Texans lost power because power plants were unable to run. FERC approved the standards proposed by the North American Electric Reliability Corp. even though they included "undefined terms, broad limitations, exceptions and exemptions and prolonged compliance periods." FERC ordered NERC to address those issues within a year."

"FERC also directed NERC to monitor and assess power plant owners' implementation of the new requirements. NERC is preparing to propose a second set of cold weather standards late this year to address remaining recommendations from the FERC-NERC inquiry into Winter Storm Uri."

Read Here: [Utility Dive](#)

State Bills Spur Debate Over Who Should Build Transmission: Incumbent Utilities or Independent Companies

"Companies like LS Power, NextEra, Evergy and ITC Great Plains are pressing lawmakers on bills that may determine who can build billions in transmission projects across the central United States. Lawmakers in at least five states are considering bills to give incumbent utilities a right-of-first-refusal to build transmission lines that grid operators put out to bid, excluding independent transmission companies from the business."

"The Midcontinent Independent System Operator, for example, last year approved a \$10.3 billion transmission expansion plan and is developing a second expansion round slated to be approved in mid-2024 that could cost \$20 billion to \$30 billion. In states without ROFR laws, the projects will be put out to bid."

Read Here: [Utility Dive](#)

What is in Biden's Proposed Budget for Energy?

"The White House released President Joe Biden's budget proposals for fiscal year 2024, which includes funding for distributed energy research, energy bill assistance, residential energy retrofits, wildfire readiness, cybersecurity and some infrastructure funding. In total, DOE's FY 2024 budget request is \$52 billion."

"According to a release by the DOE, the budget will help build a clean energy economy that supports new economic opportunities, drives new investments in clean energy projects across the country, and creates high-paying jobs for all Americans—many of which will not require a college degree."

Read Here: [T&D World](#)

Frontier Lends its Fiber to Fuel AT&T 5G Growth

"Frontier Communications and AT&T once again joined forces, this time inking an agreement which will allow the latter to hook its wireless assets up to the former's fiber facilities. The deal builds on an earlier fiber partnership the pair struck in October 2021."

"Under the terms of the deal, Frontier will provide backhaul for AT&T's wireless network via fiber-to-the-tower connections in areas where the mobile operator doesn't own its own fiber. The agreement will also allow AT&T to deploy its wireless infrastructure in Frontier's central office locations."

Read Here: [Fierce Telecom](#)

SELECT UTILITY SERVICES M&A TRANSACTIONS

Completed April 7, 2023



H.I.G. Capital has acquired Tower Engineering Professionals

- H.I.G. Capital, based in Miami, Florida, is a leading alternative assets investment firm with \$45 billion of equity capital under management
- Tower Engineering Professionals, based in Raleigh, North Carolina, engages in the engineering, design, modification, upgrade, and construction of cell towers, broadcast towers, water towers, elevated signs, roofs, and telecommunications sites in North America

Transaction

Completed March 7, 2023



Resa Power has acquired Exell Power

- RESA Power, based in Houston, Texas, is a market leader in power systems services and life extension solutions for power distribution equipment used in mission-critical environments
- Investcorp, based in Manama, Bahrain, is a leading global alternative investment manager
- Exell Power Services, based in Surrey, British Columbia, provides field services, custom manufacturing, testing, and engineering services throughout Western Canada

Completed March 1, 2023



Oaktree Capital Management has acquired Enercon Services

- Oaktree Capital Management, based in Los Angeles, California, is a leading global alternative investment manager
- Enercon Services, based in Kennesaw, Georgia, is a multidiscipline engineering and environmental services firm focused on delivering safe and efficient solutions for the power and industrial sectors

Transaction

Completed February 13, 2023



Blue Sea Capital has acquired Flagger Force

- Blue Sea Capital, based in West Palm Beach, Florida, is a growth-oriented private equity firm focusing on aerospace and defense, healthcare, and industrial growth
- Flagger Force is an industry-leading short-term traffic control company, headquartered in Hummelstown, Pennsylvania, with 12 locations that span 11 states

Completed February 7, 2023



Sparus Holdings has acquired Allegiant Utility Services and TruCheck, Inc.

- Sparus Holdings, based in Norcross, Georgia, is a leading provider of a complementary suite of field and professional services for utility and industrial customers
- Ridgemont, based in Charlotte, North Carolina, is a leading middle-market private equity firm
- Allegiant and TruCheck, based in Manor, Texas and Lawrenceville, Georgia, respectively, provide a variety of meter and smart grid-related services to investor-owned, municipal, and cooperative utilities

UTILITY SERVICES PUBLIC COMPANY OUTLOOK

Company

Key Takeaway

Earnings Call Excerpts



Dycom pointed to significant customer spending increases on fiber buildout and good January weather as drivers of top-line revenue outperformance

"Today, major industry participants are constructing or upgrading significant wireline networks across broad sections of the country. These wireline networks are generally designed to provision gigabit network speeds to individual customers and businesses either directly or wirelessly using 5G technologies. Industry participants have stated their belief that a single high-capacity fiber network can most cost-effectively deliver services to both customers and businesses... This view is increasing the appetite for fiber deployments, and we believe that... continues to meaningfully broaden the set of opportunities for our industry."

— Steven Nielsen, Chairman, President & CEO, March 1, 2023



MasTec reiterated their success in diversifying away from the oil and gas segment, with the acquisition of IEA spearheading significant growth in the Clean Energy and Infrastructure segment

"We believe the scale we have been able to achieve, along with our history of performance and safety, uniquely positions us to play a significant role in helping meet the needs of utilities and energy developers. With our integration efforts over the last two years of our acquired assets mostly complete, we are now focused on driving growth off our current base and on driving margin improvements throughout the organization."

— Jose Ramon Mas, CEO & Director, February 24, 2023



MYR highlighted continued widespread investment in infrastructure and growing demand for clean energy transformation projects as the primary drivers of continued record performance in revenues and backlog

"The stronger focus on system hardening and grid resiliency, along with the demand for more clean energy, has the potential to generate additional opportunities for our business moving forward. Our T&D segment expanded upon existing client relationships through long-term extensions of alliance agreements throughout the U.S. in 2022. This includes master service agreements for electric vehicle infrastructure as well as T&D construction projects. Our long-standing relationships with our largest customers remain strong and could create future opportunities in addition to the work we currently provide."

— Todd Cooper, Senior VP & COO of Transmission & Distribution, February 23, 2023



Primoris pointed to the Energy / Renewables segment as the main driver of record growth, specifically calling out the strength of the utility scale solar and broader utility end markets

"Primoris achieved a record year in 2022 with revenue, backlog, and net income all achieving new highs at year-end. We grew our revenue to \$4.4 billion, up more than 26% from 2021 with 15% being organic. The growth was driven by our Energy / Renewables segment, which was up 48%, primarily driven by the utility-scale solar market and our Utilities segment, which was up 22% from the previous year, driven by the expansion of our communications services as well as the acquisition of PLH."

— Tom McCormick, CEO, President & Director, February 28, 2023



Quanta cited diversity of service lines, geographic coverage, outstanding field leadership, and entrenched customer relationships as reasons for the company's strong performance in the face of a challenging economic environment

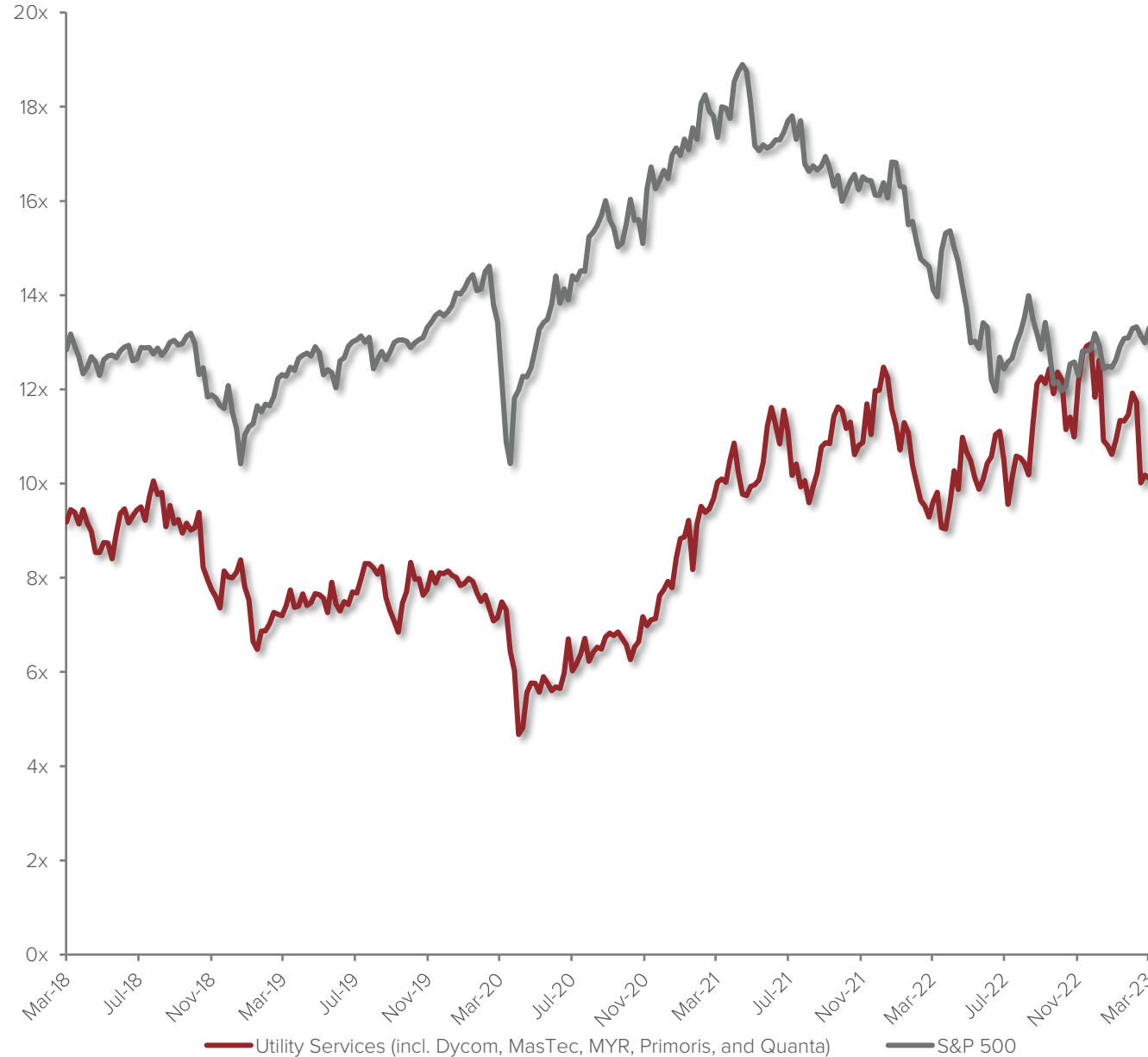
"We continue to successfully advance our front-end solution strategy, both organically and through acquisitions and strategic investments. Our focus is on strengthening our design, engineering, permitting, environmental, logistics and program management capabilities. This strategy allows us to expand our solutions to our customers and provide them with greater certainty around cost, time to market, and quality, which ultimately benefits consumers. It also enhances our risk management capabilities and increases our total addressable market."

— Earl C. Austin, President, CEO & Director, February 23, 2023

UTILITY SERVICES PUBLIC COMPANY VALUATIONS

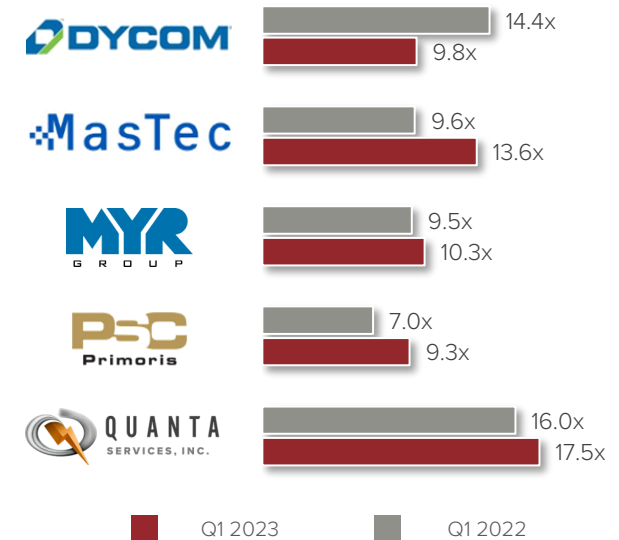
LTM EV / EBITDA MULTIPLE

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

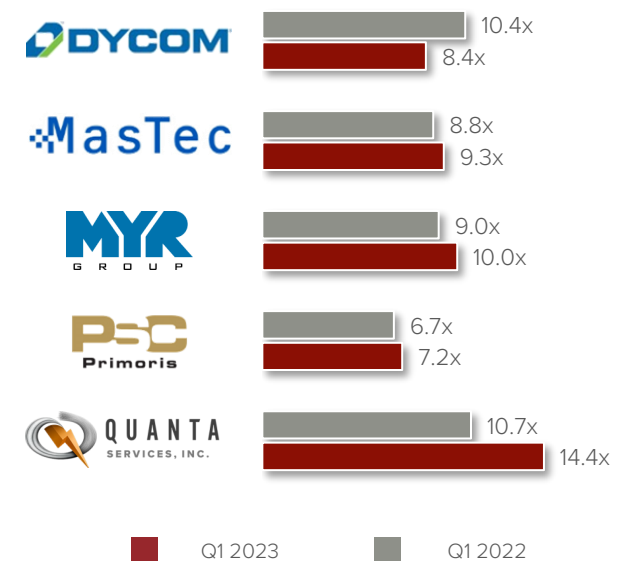


Source: CapIQ Consensus Estimate

EV / LTM EBITDA MULTIPLE

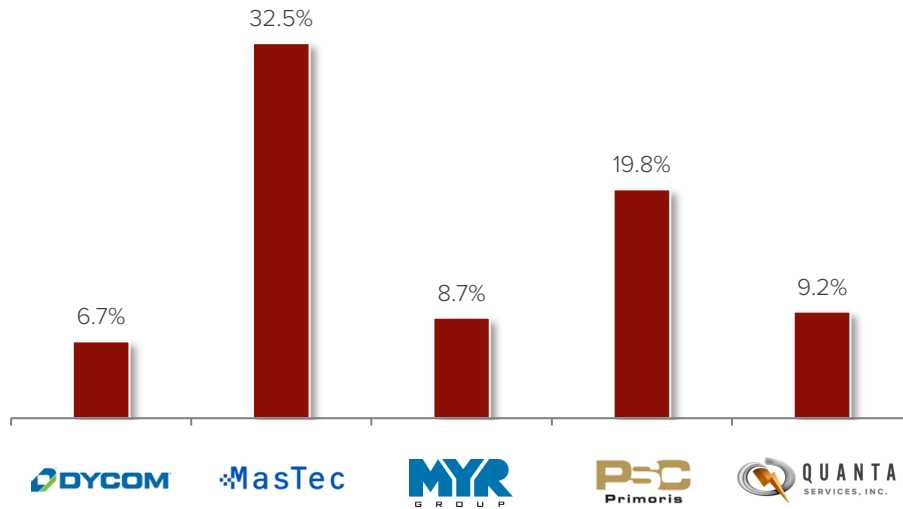


EV / NTM EBITDA MULTIPLE

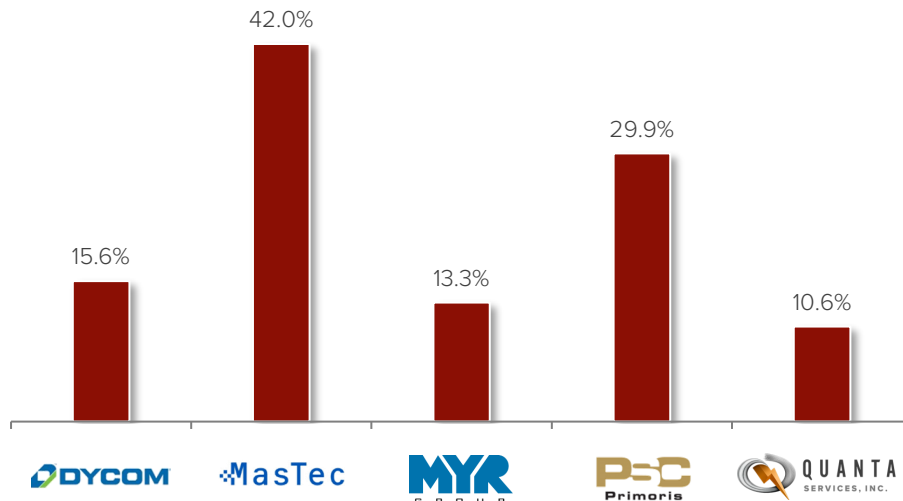


UTILITY SERVICES PUBLIC COMPANY BENCHMARKING

NTM REVENUE GROWTH FORECAST

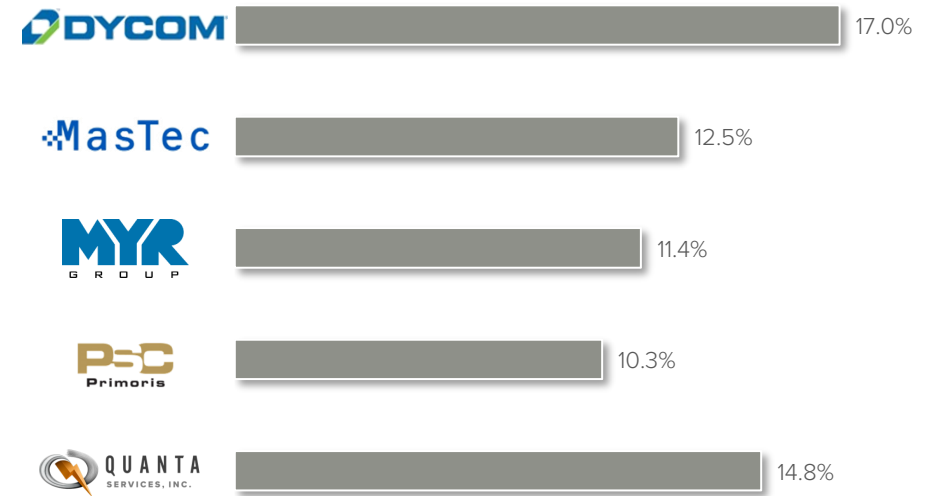


NTM EBITDA GROWTH FORECAST

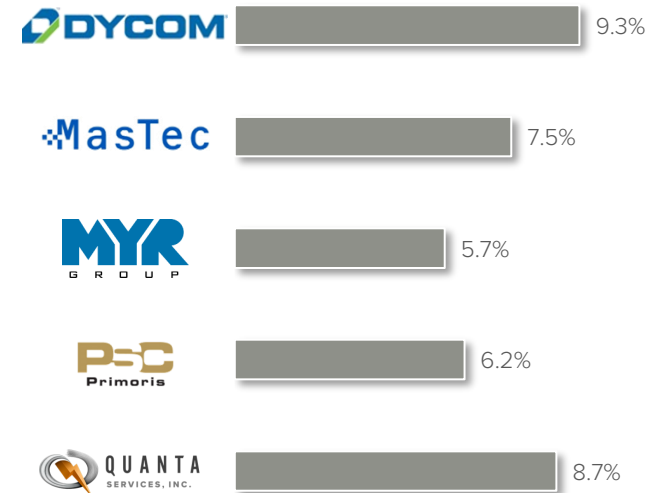


Source: CapIQ Consensus Estimate

GROSS PROFIT MARGIN



LTM EBITDA MARGIN



RECENT HARRIS WILLIAMS PUBLICATIONS

Transformers: Industry Overview

The North American electric grid's vast network of critical infrastructure is supported by millions of transformers, resulting in a highly stable transformer market. This market is poised for significant growth, particularly as federal investments in the development and implementation of renewable sources of energy increase, underpinning the ongoing support to create better and more efficient electricity infrastructure.

Several key market trends are expected to continue driving growth, including aging electrical infrastructure, grid hardening and modernization initiatives, expanding renewable distributed energy, and increasing demand from high-growth sectors, among many others.

Transformers: Industry Overview (View Report)

- Transformers are a fundamental part of the grid, and the market remains highly stable
- Market forces are accelerated by the energy transition
- Demand and supply imbalances emerged and will intensify
- New clean energy policies at the state and federal level require new investments in infrastructure

Published March 2023



Nuclear Power White Paper

Nuclear energy is a stable element of U.S. energy generation and is a critical component of a carbon-free future, producing over 50% of U.S. carbon-free energy. Access this market overview for more information on opportunities within the space and insights into the future of nuclear energy.

Nuclear power is highly productive, stable, and continuously improving. Despite inexpensive alternatives governing growth over the past decade, upgrades and other investment across the fleet have driven meaningful improvements in productivity.

Nuclear energy is as safe as wind and solar. Unlike other energy sources, nuclear waste is contained, limiting external impacts, while stringent regulations demand safe and secure plants and operators.

Nuclear Power White Paper (View Report)

- Large, stable base of reactors with the strongest productivity of electricity sources
- Consistent, predictable spending with continuous focus on utilization and modernization
- Critical component of net-zero initiatives
- Long-term visibility for service-based revenue via SRLs
- Transformative opportunity from development of SMR technologies

Published August 2022



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Sector Coverage Areas

- Utility Services
- Testing, Inspection, Compliance & Certification
- Environmental Services
- Energy Management
- Renewables & Distributed Energy
- Infrastructure Services
- Oil Field Services
- Power, Equipment & Technology
- Engineering & Construction
- Telecommunications

Utility Services Focus Areas

- Electric Transmission & Distribution
- Gas Transmission & Distribution
- Substation Construction, Maintenance & Testing
- Distributed & Renewable Energy
- Power Products
- Telecommunication

Additional Recent Content

- [Vegetation Management White Paper](#)
- [Utility T&D White Paper](#)
- [Telecom White Paper](#)

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& Government Services



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Services



Consumer



Energy, Power &
Infrastructure



Healthcare &
Life Sciences



Industrials



Technology



Transportation
& Logistics

70% Revenue from
repeat clients

83% Managing
directors
promoted from
within the firm

30+ Year
history



Sources

1. CapIQ

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