



UTILITY SERVICES SECTOR BRIEF

Q1 2024

HW Harris Williams

Recent Harris Williams Publications

Power Components White Paper

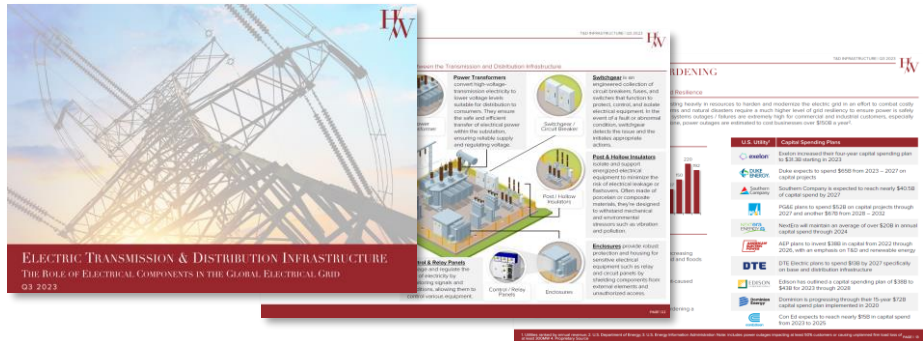
The North American and European Transmission & Distribution (T&D) industry supplies equipment, services, and systems to help meet the growing need for reliable and affordable energy. Power components and equipment are the essential building blocks of the electrical grid. As utilities strive to enhance grid resiliency and support the rapid growth in electrification, the energy transition, and substantial growth in connectivity, they will invest billions of dollars annually to meet the increasingly complex needs of the grid.

Strong secular tailwinds support long-term, recession-resilient demand to maintain and upgrade existing electrical infrastructure, creating an expanding set of opportunities for investors.

Power Components White Paper (View Report)

- Significant capital requirements are necessary to support the rapidly evolving energy mix
- Unprecedented capital spending plans are playing out across the U.S. utilities landscape
- Increasingly complex grid dynamics centered around decentralization, bidirectional power, and generation variability drive continued demand
- An array of components are needed across the entire grid landscape, from generation to delivery

Published September 2023



Transformers: Industry Overview

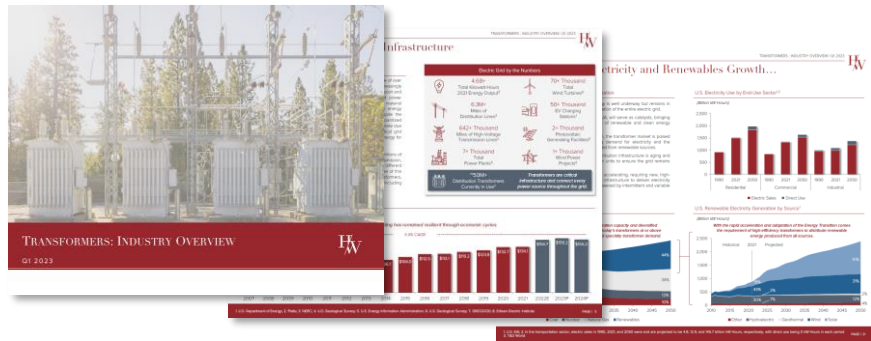
The North American electricity grid's vast network of critical infrastructure is supported by millions of transformers, resulting in a highly stable transformer market. This market is poised for significant growth, particularly as federal investments in the development and implementation of renewable 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 levels require new investments in infrastructure

Published March 2023



WHAT WE'RE READING

Washington Department of Commerce announces grants to strengthen electric grid

"These projects, which are primarily to organizations that haven't received funding in the past, will result in a cleaner, more resilient, and more just energy system while at the same time create construction, operations, and maintenance jobs," said Commerce Director, Mike Fong.

"The awarded projects aim to enable cross-cutting social, environmental, and energy burdens on communities. The applicants expect increased energy resilience, opportunities to implement new technologies to replace aging infrastructure, and deploy innovative clean technologies in communities facing climate change impacts."

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

Federal lawmakers urge FERC to adopt 'shared savings' incentive for grid-enhancing technologies

"In a study released last month, RMI found that installing GETs in five PJM Interconnection states would allow 6.6 GW of proposed clean energy resources to connect to the grid, saving consumers about \$1 billion a year in reduced generation costs.

"GETs (Grid-Enhancing Technologies) have repeatedly been demonstrated — in modeling and in real-world deployment — to improve grid reliability, resiliency, flexibility, capacity, and efficiency,' the lawmakers said. GETs are needed to address growing electricity demand and clean energy deployment challenges, the lawmakers said, noting that solar and wind projects are waiting in long interconnection queues, while transmission owners struggle to find space on the grid to interconnect them."

Read Here: [Utility Dive](#)

Solar, battery storage will be 81% of new generation capacity in 2024: EIA

"Solar additions will contribute 58% of new electricity generation capacity this year, while battery storage additions will make up 23%, according to the U.S. Energy Information Administration (EIA) ...

"The Inflation Reduction Act has also accelerated the development of energy storage by introducing investment tax credits for stand-alone storage. Prior to the IRA, batteries qualified for federal tax credits only if they were co-located with solar."

Read Here: [Utility Dive](#)

Amid explosive demand, America is running out of power

"... Northern Virginia needs the equivalent of several large nuclear power plants to serve all the new data centers planned and under construction. Texas, where electricity shortages are already routine on hot summer days, faces the same dilemma.

"A major factor behind the skyrocketing demand is the rapid innovation in artificial intelligence, which is driving the construction of large warehouses of computing infrastructure that require exponentially more power than traditional data centers."

Read Here: [The Washington Post](#)

The Midwest's grid operator is planning a massive new transmission buildout. Will it be enough?

"The Midwest's regional transmission grid operator this week announced another multi-billion-dollar phase of transmission line projects as part of a four-part push to improve reliability and reduce curtailments... The Midcontinent Independent System Operator (MISO) unveiled plans Monday for what's known as its "Tranche 2" portfolio, which includes plans for several 765-kilovolt transmission "highways" spanning sections of Minnesota, Iowa, Wisconsin, Illinois, Indiana, Michigan, North Dakota, and Missouri.

"Many of the new lines would connect to projects being built as part of the \$10.4 billion Tranche 1 portfolio, which MISO approved last year. Tranche 2 is projected to cost even more, at between \$17 billion and \$23 billion. A third batch of projects will focus on the grid operator's southern territory, and the fourth will address north-south connections."

Read Here: [Power-Grid](#)

SELECT UTILITY SERVICES M&A TRANSACTIONS

Announced March 1, 2024



Oaktree has acquired Electro-Mechanical

- Oaktree Capital Management, based in Los Angeles, California, is a global investment manager specializing in alternative investments.
- Electro-Mechanical, based in Bristol, Virginia, is a leading manufacturer of engineered electrical equipment sold into utility and industrial end markets.

Completed February 7, 2024



Qualus has acquired Enkompass Power and Energy

- Qualus, based in Cincinnati, Ohio, is a leading pure-play power services firm and innovator at the forefront of the energy transition, with differentiated capabilities across grid modernization, resiliency, security, and sustainability across end markets.
- Enkompass Power and Energy Corporation, based in Ontario, Canada, is an electrical engineering and technical services firm that provides studies, power systems engineering, retrofit, commissioning, and specialized field services.

Completed November 30, 2023



Blackstone has acquired Power Grid Components

- Blackstone, based in New York, New York, is the world's largest private equity firm that invests across industries and size profiles.
- Power Grid Components, based in Bessemer, Alabama, is a supplier of high-quality products used to build, maintain, and upgrade the North American electric power grid based in Chicago, Illinois.

Transaction

Completed November 2, 2023



Quanta Services has acquired Pennsylvania Transformer

- Quanta Services, based in Houston, Texas, is a leading specialized contracting services company, delivering comprehensive infrastructure solutions for the utility, communications, pipeline, and energy industries.
- Pennsylvania Transformer, based in Canonsburg, Pennsylvania, is an established and reliable domestic manufacturer of power transformers and components for the investor-owned electric utility, renewable energy, municipal power, and industrials markets.

Completed December 12, 2023



Hubbell has acquired Systems Control

- Hubbell, based in Shelton, Connecticut, is a leading manufacturer of utility and electrical solutions enabling customers to operate critical infrastructure safely, reliably, and efficiently.
- Systems Control, based in Iron Mountain, Michigan, is a leading manufacturer of substation control and relay panels and a provider of turnkey substation control building solutions.

Transaction

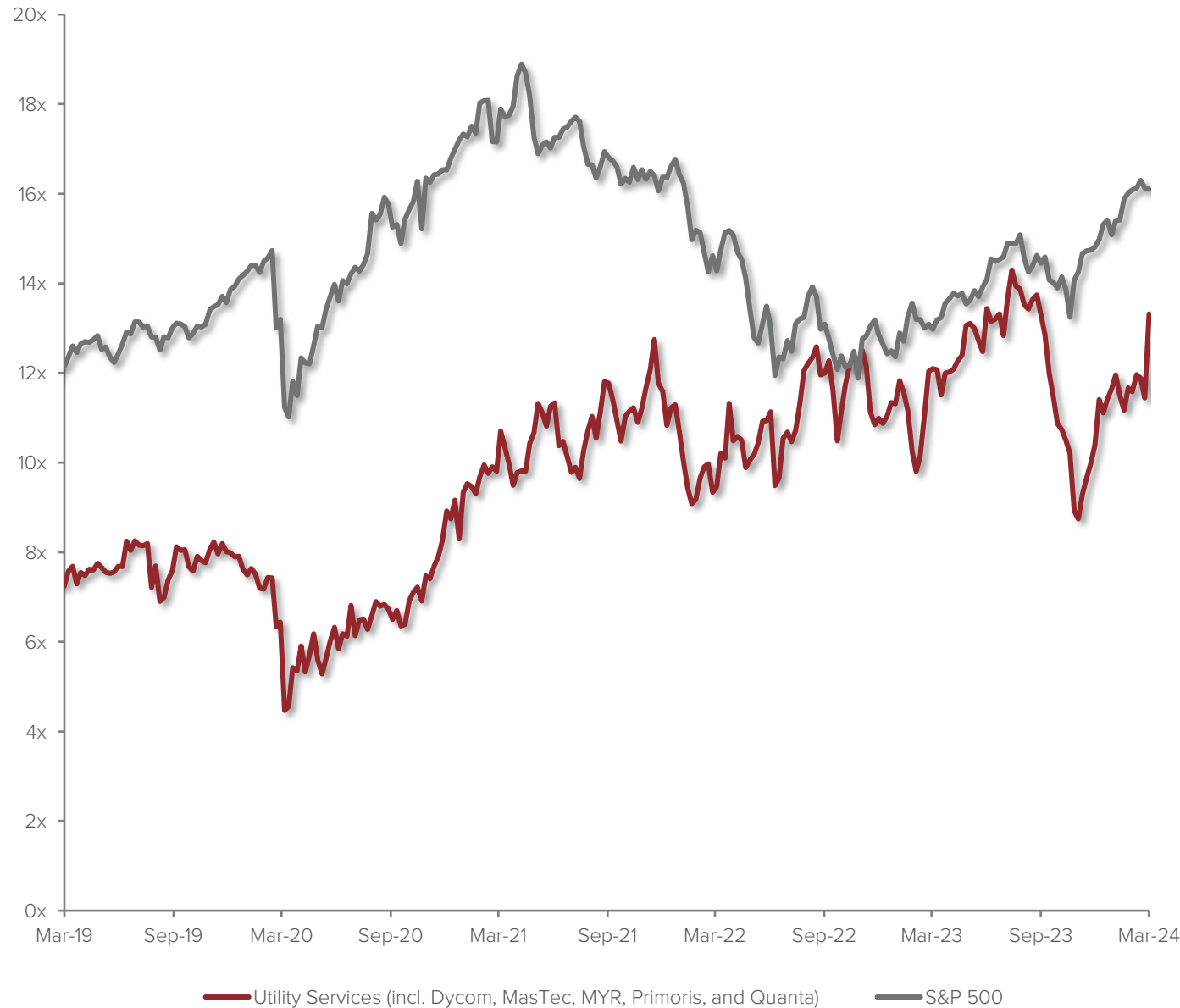
UTILITY SERVICES PUBLIC COMPANY OUTLOOK

Company	Key Takeaway	Earnings Call Excerpts
	Dycom emphasized the crucial demand of high-capacity telecommunications, and the company is encouraged by multi-year spending initiatives, including \$40 billion of IJA funding for the construction of rural communications networks under the BEAD program.	<p><i>“Overall, we are encouraged by improving financial markets with long-term interest rates substantially lower than six months ago, and expect these lower rates, if sustained, to support future industry investment. Within this context, we remain confident that our scale and financial strength position us well to deliver valuable service to our customers.”</i></p> <p>— Steven Nielsen, Chairman, President & CEO, February 28, 2024</p>
	MasTec pointed to strong positioning in the market and long-term segment fundamentals to support a conservative but optimistic take on growth.	<p><i>“With the integration efforts of the acquisitions and Power Delivery behind us, we believe we are better positioned than ever, while the majority of our business is recurring MSA-driven, our project business has the greatest opportunity for growth, we are currently bidding on a number of very large projects, any one of which individually could grow this segment by double digits annually. After spending the last few years building out our platform geographically, we are really excited about this segment's future revenue.”</i></p> <p>— Jose Ramon Mas, CEO & Director, March 1, 2024</p>
	MYR cited both strength in recurring client relationships and macro tailwinds as key enablers for the ongoing success of the business, having achieved nine consecutive years of growth.	<p><i>“Grid modernization, reliability improvement, system hardening, decarbonization, and greater usage of hybrid cloud environments and artificial intelligence are the key market drivers that present opportunities for consistent success across our business. The tremendous investments being made in electrical infrastructure are encouraging and highlight why we believe our chosen markets are poised for ongoing success for many years to come.”</i></p> <p>— Richard Swartz, CEO & Director, February 29, 2024</p>
	Primoris noted the role of cross-selling service lines to loyal customers as a critical component to growth as they also look to shift to higher margin services.	<p><i>“We have a healthy backlog of projects and the teams in place to execute on our growth plans. Our end markets are positioned for long-term growth, and our expectation is that we will continue to benefit from ongoing investments in infrastructure services. However, our focus is on taking the right projects with the right contract terms in the right markets with the right partners, which will allow us to improve margins and generate additional positive cash flow.”</i></p> <p>— Tom McCormick, CEO, President & Director, February 27, 2024</p>
	Quanta underscored their focus on future growth and strategic positioning of the company for oncoming infrastructure investments.	<p><i>“As North America’s energy transition accelerates, we believe our breadth of solutions and the complementary capabilities of our operations portfolio will become even more valuable to our customers. We believe our 2024 guidance demonstrates the strength and sustainability of our portfolio and the continued execution against our long-term strategy. Further, our ongoing investment in and commitment to workforce training and safety continues to positively impact our performance and gives us a competitive advantage when pursuing opportunities across our end markets.”</i></p> <p>— Operational and Financial Commentary, February 22, 2024</p>

UTILITY SERVICES PUBLIC COMPANY VALUATIONS

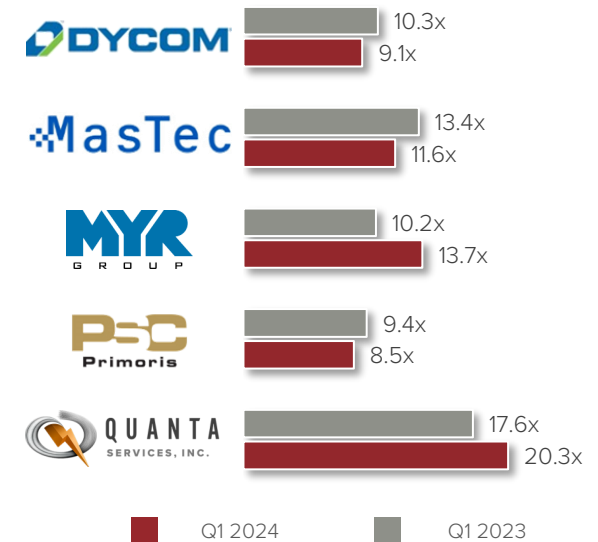
LTM EV / EBITDA MULTIPLE

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

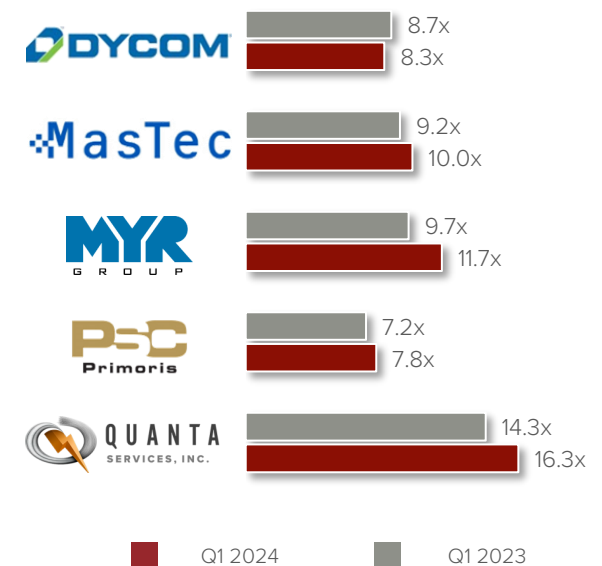


Source: CapIQ Consensus Estimate

EV / LTM EBITDA MULTIPLE

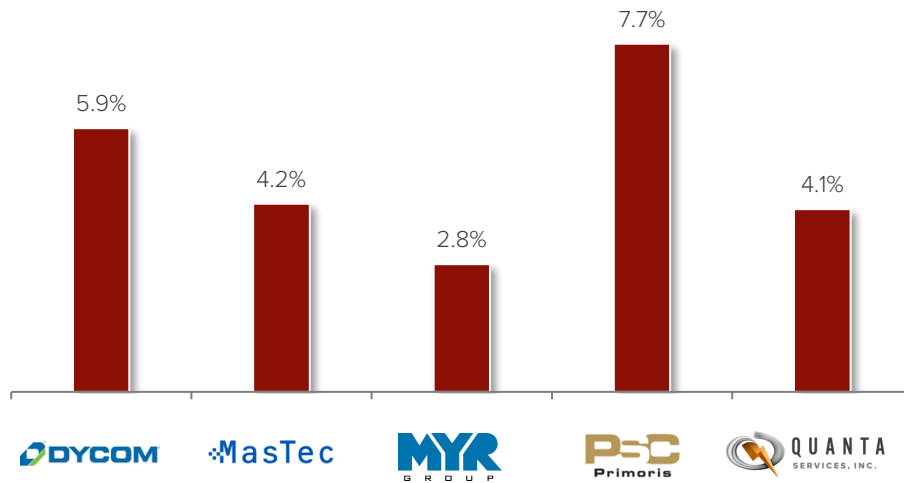


EV / NTM EBITDA MULTIPLE

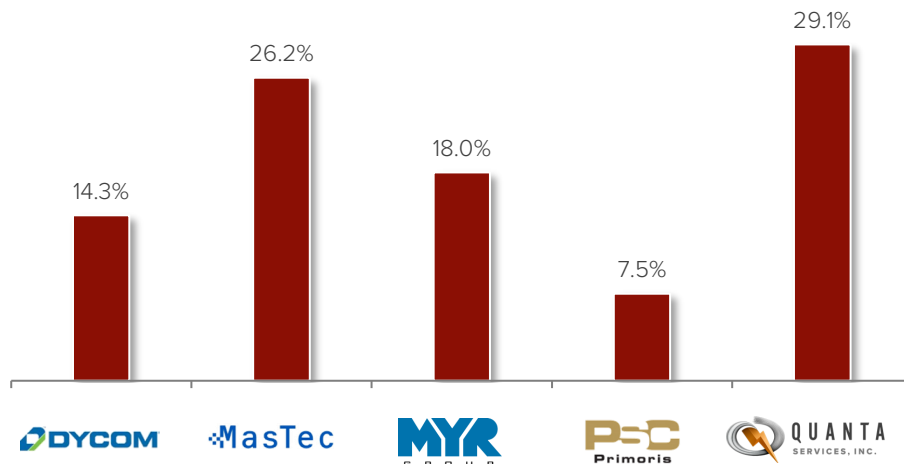


UTILITY SERVICES PUBLIC COMPANY BENCHMARKING

NTM REVENUE GROWTH FORECAST

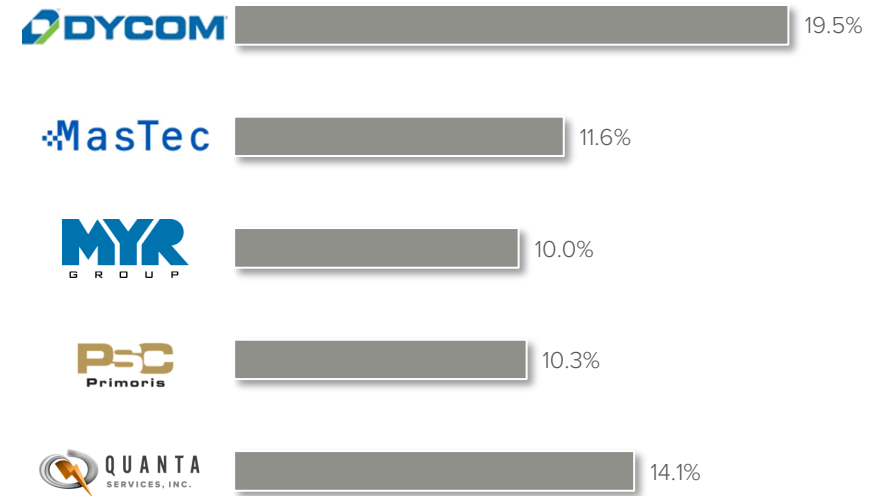


NTM EBITDA GROWTH FORECAST

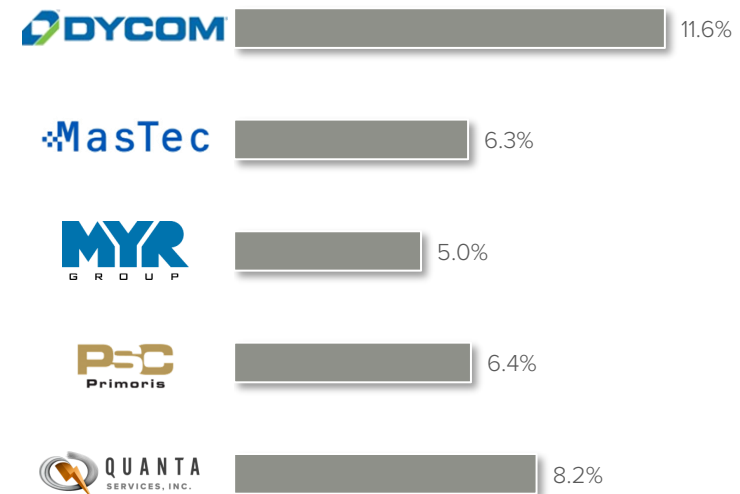


Source: CapIQ Consensus Estimate

GROSS PROFIT MARGIN



LTM EBITDA MARGIN



ENERGY, POWER & INFRASTRUCTURE GROUP

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

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

Contact Us

Luke Sample

Managing Director
lsample@harriswilliams.com
Office: (804) 915-0158

Thomas Saunders

Director
tsaunders@harriswilliams.com
Office: (804) 915-0143

Drew Spitzer

Managing Director
aspitzer@harriswilliams.com
Office: (804) 915-0174

Neha Shah

Director
nshah@harriswilliams.com
Office: (804) 887-6036

Greg Waller

Managing Director
gwaller@harriswilliams.com
Office: (804) 887-6138

Sean Bielawski

Vice President
sbielawski@harriswilliams.com
Office: (804) 915-0176

Matt White

Managing Director
mwhite@harriswilliams.com
Office: (804) 915-0131

Patrick Fitzsimmons

Vice President
pfitzsimmons@harriswilliams.com
Office: (804) 528-3565



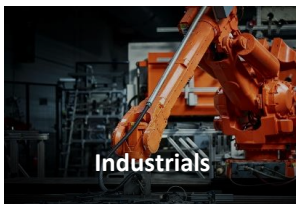
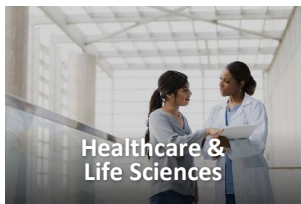
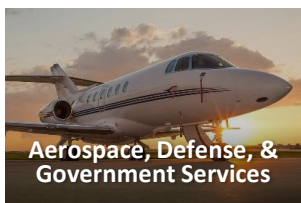
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Proven Expertise

Core Values That Drive Success



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87% Managing Directors promoted from within

30+ Year history

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