

# Specialty Telecom & Infrastructure Contractors M&A Market Update<sup>©</sup>

Addressing the M&A Needs of Technology and Telecommunications Professionals

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## About Us:

The McLean Group is a national investment bank serving middle market businesses. For more information, visit [www.mcleanllc.com](http://www.mcleanllc.com).

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## Industry Snapshot

The \$12.7 billion<sup>1</sup> per year specialty contractor industry provides outsourced engineering, installation, maintenance and infrastructure repair for major telecommunications (wireless and wireline) firms (e.g. AT&T, Verizon, Qwest, Sprint), regional utilities (e.g. PG&E, Duke, FPL, TXU, Con Ed) and the pipeline industry. Over several decades these industries have turned to specialized contractors for their highly skilled and flexible workforces. In the telecommunications sector, specialty services include among other things: outside fiber cable trenching, fiber optic splicing, fiber to the node (FTTN) or to the home (FTTH), deployment, satellite TV installation and central office engineering, furnishing and installation. Additional specialty services include cellular tower site construction, RF engineering and distributed antenna deployment. In the utility sector, critical services include transmission line deployment, substation upgrade and emergency response.

There are several large and diversified public companies that are the major players in this industry followed by what is estimated to be several hundred mid-sized<sup>2</sup> to small contractors. The largest companies in the industry are Quanta Services, Mastec, Dycom Industries, MYR Group, Pike Electric and Unitek. Other private companies with sizable market share include: Henkels & McCoy, Willbros Group and other engineering companies that have exclusive EF&I<sup>3</sup> work with such telecommunications companies as Black & Veatch, Telamon, AFL and ADC/Tyco.

Below is a table of recent M&A transactions. We believe there has been and will continue to be M&A and industry consolidation will be driven by three major trends:

- Strong Cyclical Recovery in Transmission Investments as a result of two key factors:
  - o Massive incremental investment in broadband telecom infrastructure driven by new 4G mobile wireless infrastructure build-out and the \$7 billion American Recovery Act of 2009 (ARRA) Broadband Initiative primarily directed towards locations in rural America.
  - o Dramatic utility grid investment increases given demand for such conventional and alternative energy sources as solar and wind power. Some 31,417 miles of circuit (100KV+) construction are planned or under construction between 2009 and 2018 vs. just 9,500 miles between 2000 and 2008<sup>4</sup>.

<sup>1</sup>IBIS World market size estimate, November 2009

<sup>2</sup>IBIS World estimates 5,250 enterprises and 160,000 employees engaged in this industry (Transmission Line Construction) November 2010

<sup>3</sup>Engineering, Furnishing and Installation

<sup>4</sup>NERC Long-term Reliability Assessment - October 2009

## “Industry Snapshot...” continued from p.1

- Continued Demand for Flexible Outsourcing and Engineering Talent: The utility and telecom industries continue to source low cost, flexible high-end engineering talent. There is a significant shortage of trained and certified (e.g. TLC 9001) engineering personnel and acute shortages in RF “tower climbing” engineers and technicians. Smaller firms that can attract, train and develop such personnel could be attractive M&A targets.
- Trend toward Scale and Increased Bonding Capacity: The larger customers in this area are looking to consolidate their vendor lists to reduce costs and improve vendor management and efficiencies. Furthermore, due to the project work’s size and risks, customers are increasing the size of contract bonds. For these reasons, we see further consolidation among this sector’s smaller, less-capitalized firms.

## Impact on Middle Market Companies

There are approximately 100 small- to mid-sized specialty infrastructure contractors (with annual revenue between \$5 million and \$100 million) in the US. Most are regional, virtually all are private and most are family-owned. They are regionally-focused, typically serving local telecommunications companies or utilities. We believe the cyclical and investment trends noted above combined with the fact that the larger industry players are aggressively seeking growth through acquisitions, is driving valuation multiples to historic levels. Our experience indicates that the following factors make these companies most attractive: (i) the customer base’s quality and diversity; (ii) engineers and technicians’ skill sets and certifications; (iii) the extent and length of the current contract backlog, and (iv) top management’s quality and retention. Companies with an established, well-trained team of RF engineers and tower technicians are particularly valuable. In the utility sector, companies with qualifications in emergency power outage response or wind turbine service work also are receiving premium value due to the high margins associated with these types of contracts. Finally, companies that have ‘turf-vendor’ relationships with the major telecommunications carriers also are of significant value in the specialty contractor sector because they are likely to realize dramatic increases in volume particularly for the deployment of wireless broadband back-haul networks.

## Recent Transactions (\$ MM's)

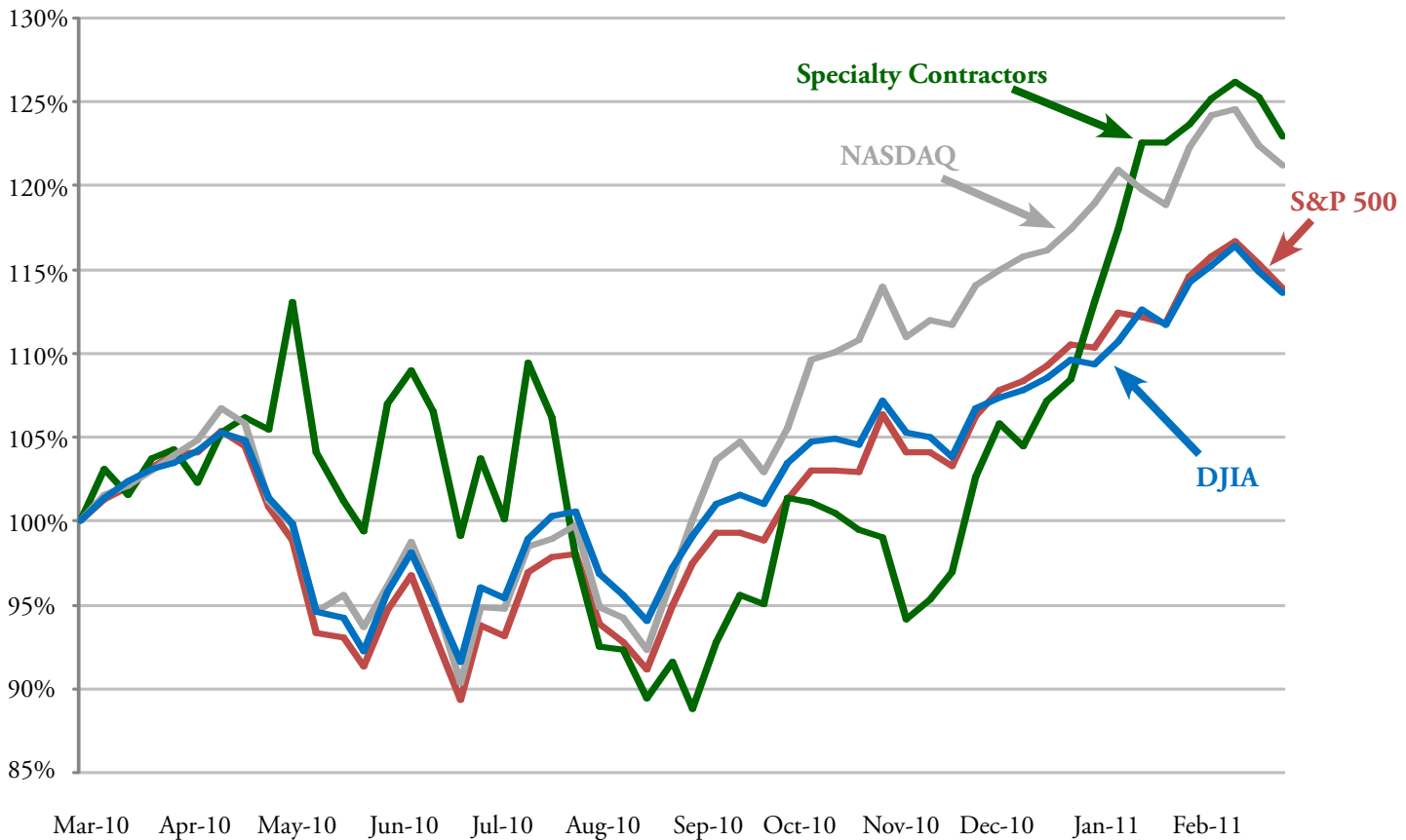
Closed Date	Target	Acquirer	Enterprise Value	LTM Revenue	LTM EBITDA	EV/ Revenue	EV/ EBITDA
12/23/2010	NeoCom Solutions, Inc.	Dycom Industries Inc.	\$27.5	NA	NA	NA	NA
12/8/2010	ADC Telecommunications Inc.	Tyco Electronics, Ltd.	\$1,277.8	\$1,111.5	\$102.7	1.1x	12.4x
11/19/2010	Communication Services, Inc.	Dycom Industries Inc.	\$9.7	NA	NA	NA	NA
10/25/2010	Valard Construction Ltd.	Quanta Services, Inc.	\$228.0	NA	NA	NA	NA
7/1/2010	InfrastruX Group, Inc.	Willbros Group Inc.	\$859.0	\$598.8	\$15.9	1.4x	54.0x
6/30/2010	Klondyke Construction LLC	Pike Electric Corporation	\$15.2	NA	NA	0.5x	NA
3/18/2010	Enspira Solutions, Inc.	Black & Veatch	NA	NA	NA	NA	NA
11/20/2009	Precision Pipeline, LLC	MasTec, Inc.	\$159.6	NA	NA	0.3x	1.7x
10/1/2009	Price Gregory Services, Inc.	Quanta Services, Inc.	\$330.2	\$1,686.1	\$340.9	0.2x	1.0x
9/4/2009	Ariston Consulting & Technologies Inc.	Black & Veatch	NA	NA	NA	NA	NA
6/30/2009	Facilities Planning & Siting, PLLC	Pike Electric Corporation	\$2.4	NA	NA	NA	NA
6/30/2009	Pacific Electrical Installations Inc.	Henkels & McCoy, Inc.	NA	NA	NA	NA	NA
12/16/2008	Wanzek Construction, Inc.	MasTec North America, Inc.	\$171.7	NA	NA	0.6x	NA
7/31/2008	Winco Inc.	Quanta Services, Inc.	NA	NA	NA	NA	NA
7/31/2008	nsoro, LLC	MasTec, Inc.	\$69.5	NA	NA	0.4x	NA
4/25/2008	Pauley Construction, Inc.	Quanta Services, Inc.	NA	NA	NA	NA	NA
1/4/2008	Telamon Corporation	Officescape, Inc.	NA	NA	NA	NA	NA
8/30/2007	InfraSource Services, Inc.	Quanta Services, Inc.	\$1,311.6	\$992.3	\$75.0	1.3x	17.5x

# Public Company Comparable Values (\$ MM's)

Company	Ticker	Market Cap.	Enterprise Value	EBITDA Margin	EV / Revenue LTM FY11E		EV / EBITDA LTM FY11E		'11E EBITDA Growth	LTM Revenue	LTM EBITDA
Quanta Services, Inc.	PWR	\$4,814.6	\$4,278.1	10.5 %	1.1x	1.0x	NM	9.1x	13.3 %	\$3,931.2	\$413.0
MasTec, Inc.	MTZ	\$1,572.7	\$1,825.8	10.5 %	0.8x	0.7x	7.5x	6.5x	15.3 %	\$2,308.0	\$243.0
Dycom Industries Inc.	DY	\$569.1	\$644.6	8.8 %	0.6x	0.6x	7.4x	6.5x	20.2 %	\$993.0	\$86.9
MYR Group, Inc.	MYRG	\$489.1	\$456.5	7.0 %	0.8x	0.7x	NM	9.0x	20.2 %	\$597.1	\$42.0
Pike Electric Corporation	PIKE	\$311.8	\$398.2	6.2 %	0.8x	0.7x	NM	8.7x	43.8 %	\$519.0	\$32.4
UniTek Global Services, Inc.	UNTK	\$138.1	\$308.2	6.8 %	0.8x	0.6x	NM	7.1x	49.0 %	\$372.5	\$25.4
Argan, Inc.	AGX	\$114.9	\$38.8	5.0 %	0.2x	NA	3.9x	NA	NA	\$201.7	\$10.1
Low		\$138.1	\$308.2	6.2%	0.6x	0.6x	7.4x	6.5x	13.3 %	\$372.5	\$25.4
Mean		\$1,315.9	\$1,318.6	8.3%	0.8x	0.7x	7.5x	7.8x	27.0 %	\$1,453.5	\$140.5
Median		\$529.1	\$550.5	7.9%	0.8x	0.7x	7.5x	7.9x	20.2 %	\$795.0	\$64.5
High		\$4,814.6	\$2,278.1	10.5%	1.1x	1.0x	7.5x	9.1x	49.0 %	\$3,931.2	\$413.0

## Specialty Contractors Index

Relative Performance (%)



Market Cap Indices with mixed currencies are converted into USD using historical spot rates.  
Specialty Contractors Index includes: PWR, MTZ, DY, MYRG, PIKE, UNTK, AGX

## About the Author

Steve Mooney, a Managing Director in The McLean Group's headquarters office, specializes in emerging communications and information technology firms.

Mr. Mooney has more than 15 years' senior executive experience in corporate development, treasury and finance for MCI Communications, Verizon Business and Affiliated Computer Services. He led the negotiation of eight significant acquisition and divestiture transactions valued at more than \$650 million. He also served as a principal for the MCI WorldCom Venture Fund, investing more than \$250 million in 20 portfolio investments in advanced communications and Internet technology companies. Mr. Mooney played an instrumental corporate finance role in restructuring MCI following WorldCom's bankruptcy and subsequent \$9 billion sale to Verizon.

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## The McLean Group Technology & Telecom Practice

The Washington, DC area incubates a large number of technology companies serving the federal government, telecommunications and Internet industries. Many government agencies and corporations produce a steady stream of entrepreneurs who establish and grow successful middle market businesses in the region.

We have served these regional technology firms among others nationally and worldwide. Whether product- or service-oriented, our research, analysis, valuation and investment banking professionals have experience with a broad array of technology companies. We are well-equipped to help our clients build value and close successful transactions.



## About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. Headquartered in the Washington, DC metropolitan region's technology, communications and government contracting corridor, the firm is among the top middle market investment banks in the nation.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.
- **Market Intelligence:** By leveraging superior competitive analyses, the firm provides business executives with comprehensive market intelligence reports, which provide the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.