

Technology & Telecommunications

Spring 2012 M&A Update: Specialty Telecom
& Infrastructure Contractors

Industry Snapshot

The \$13.6 billion¹ per year specialty contractor industry provides outsourced engineering, installation, maintenance and infrastructure repair for major wireless and wireline telecommunications firms (e.g. AT&T, Verizon, Qwest, Sprint), regional utilities (e.g. PG&E, Duke, FPL, TXU, Con Ed) and the pipeline industry (e.g. TransCanada, Piedmont Natural Gas, Xcel, Lone Star). Over the course of several decades, these industries have turned to specialized contractors for their highly-skilled and flexible workforces. In the telecommunications sector, specialty services include: outside fiber cable trenching, fiber optic splicing, fiber to the node (FTTN) or to the home (FTTH), fiber to the tower (FTTT) deployment, satellite TV installation, and central office engineering, furnishing and installation. Additional specialty services include cellular tower site acquisition and construction, RF engineering and distributed antenna deployment. In the utility sector, critical services include transmission line deployment, substation upgrade and emergency response.

Several large, diversified public companies – Quanta Services, Mastec, Dycom Industries, MYR Group, Pike Electric and Unitek – are major industry players along with an estimated 100 small- to mid-sized² contractors. Private companies with sizable market share include: Henkels & McCoy, Willbros Group, Black & Veatch, DH Blattner & Sons and M.A. Mortenson Co. Other engineering companies with exclusive EF&I³ telecommunications work include Telamon, AFL and ADC/Tyco.

For the most part, while public companies in this sector increased revenue and earnings significantly in 2011, their relative stock performances deteriorated in 2011 and then declined significantly during 2012's first quarter (down 8% on average vs. relevant S&P and NASDAQ indices). We believe this volatility primarily reflects recent turmoil in global markets and concerns about an economic slowdown as opposed to the performances of individual companies. We believe M&A and industry consolidation will continue. Other trends driving the industry likely will include:

- Strong Infrastructure Investments reflecting several factors:
 - Massive incremental investment in broadband telecom infrastructure driven by 4G mobile wireless build-out and the \$7 billion American Recovery Act of 2009 (ARRA) Broadband Initiative primarily directed towards locations in rural America. Wireless companies in particular forecast a 5X increase in wireless traffic by 2015 reflecting a dramatic increase in data over mobile devices that will require increased density of cellular towers and distributed antenna systems.⁴
 - Dramatic increases in utility grid investments to meet demand for conventional energy and alternative energy (primarily solar and wind power) sources. Some 33,923 miles of 100KV+ circuit construction are planned or under construction between 2010 and 2018 vs. some 13,500 miles between 2000 and 2009.⁵
 - Canadian and US shale oil and natural gas development is significantly increasing demand for pipeline and distribution capacity.
- 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. TL9001) engineering personnel and acute shortages in RF “tower climbing” engineers and technicians. Smaller firms that can attract, train and develop such personnel may become attractive M&A targets.

- Trend toward Scale and Increased Bonding Capacity: The larger customers in this sector are consolidating vendor lists to reduce costs and improve vendor management/efficiencies. Meanwhile, increasing size, complexity and risks are driving customers to demand larger contract bond capacity. In short: smaller, less-capitalized firms likely will face continuing consolidation.

¹ IBIS World market size estimate (March 2012)

² IBIS World estimates 5,250 enterprises and 160,000 employees engaged in this industry (Transmission Line Construction) (March 2012)

³ Engineering, Furnishing and Installation

⁴ Cisco Networking Index: Global Mobile Data Traffic Forecast (February 2011)

⁵ NERC Long-Term Reliability Assessment (October 2010)

Impact on Middle Market Companies

Approximately 100 US small- to mid-sized specialty infrastructure contractors generate \$5 million to \$250 million in annual revenues. Most are regionally-focused, family-owned firms that typically serve local telecommunications companies or utilities. Virtually all are privately-held. We believe the above-noted cyclical and investment trends, combined with larger industry players' aggressive drives to grow through acquisition, are inflating valuation multiples to historic levels. Our experience indicates that the most attractive acquisition candidates demonstrate particular strength in their: 1) customer base quality and diversity; 2) engineers' and technicians' skill sets and certifications; 3) extensive, long-term contract backlogs, and 4) retention of top-quality senior management. Companies having established, well-trained teams of RF engineers and tower technicians are particularly valuable. In the utility sector, companies qualified in emergency power outage response or wind turbine service work win premium valuations that reflect the high margins associated with these types of contracts. Finally, companies having 'turf-vendor' relationships with major telecommunications carriers also are particularly valuable in the specialty contractor sector because they are likely to realize dramatic increases in volume through the deployment of wireless broadband back-haul networks (among other, similar initiatives).

Recent Transactions (\$ MM)

Closed Date	Target	Acquirer	Enterprise Value	LTM Revenue	LTM EBITDA	EV/Revenue	EV/EBITDA
1/12/2012	Telecom Services Inc.	Ceres Technology Group, Inc.	NA	NA	NA	NA	NA
10/1/2011	Utilimap	Quanta Services	\$35.00	NA	NA	NA	NA
9/16/2011	Cancable, Inc.	Laurus Funds Inc.; Valens Capital Management, LLC	NA	NA	NA	NA	NA
6/1/2011	Optima Networks	Mastec	\$7.30	\$11	NA	.67X	NA
5/1/2011	EC Source	Mastec	\$128.00	NA	NA	NA	NA
4/29/2011	McCaine Electric Ltd.	Canem Systems, Ltd.	\$12.60	\$31.50	\$3.40	0.4x	3.7x
4/1/2011	Cam Communications	Mastec	\$10.00	\$16.00	NA	.63X	NA
4/1/2011	Fabcor	Mastec	\$46.70	NA	NA	NA	NA
1/3/2011	Fisk Corporation	Tutor Perini Corporation	\$120.00	\$300	NA	0.4x	NA
12/23/2010	NeoCom Solutions, Inc.	Dycom Industries, Inc.	\$27.50	NA	NA	NA	NA
12/8/2010	ADC Telecommunications, Inc.	Tyco Electronics, Ltd.	\$1,277.80	\$1,111.50	\$102.70	1.1x	12.4x
11/19/2010	Communication Services, Inc.	Dycom Industries, Inc.	\$9.70	NA	NA	NA	NA
10/25/2010	Valard Construction, Ltd.	Quanta Services, Inc.	\$228.00	NA	NA	NA	NA
7/1/2010	InfrastruX Group, Inc.	Willbros Group, Inc.	\$859.00	\$598.80	\$15.90	1.4x	54.0x
6/30/2010	Klondyke Construction, LLC	Pike Electric Corporation	\$15.20	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.	\$159.60	NA	NA	0.3x	1.7x
10/1/2009	Price Gregory Services, Inc.	Quanta Services, Inc.	\$330.20	\$1,686.10	\$340.90	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	\$2.40	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.	\$171.70	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.	\$69.50	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

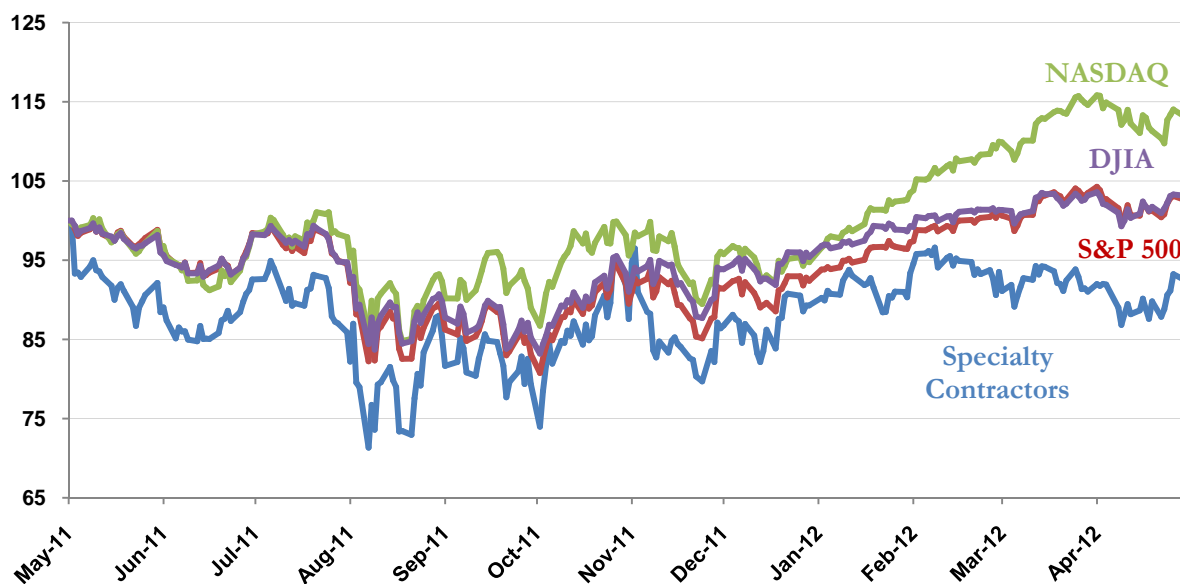
Public Company Comparable Values (\$ MMs) as of 4/30/12

Company (\$Millions)	Ticker	Market Cap.	Enterprise Value	EBITDA Margin	EV / Revenue		EV / EBITDA		'12E EBITDA Growth	LTM Revenue	LTM EBITDA
					LTM	FY12E	LTM	FY12E			
Quanta Services, Inc.	PWR	\$4,671.0	\$4,363.0	7.9 %	0.9x	0.8x	12.0x	8.1x	47.4 %	\$4,623.8	\$363.7
MasTec, Inc.	MTZ	1,402.5	1,877.2	8.5 %	0.6x	0.6x	7.3x	5.8x	26.7 %	3,009.0	256.1
Dycom Industries Inc.	DY	780.2	885.7	10.7 %	0.8x	0.7x	7.2x	6.8x	6.5 %	1,143.1	122.3
Tutor Perini Corporation	TPC	721.0	1,205.5	5.5 %	0.3x	0.3x	5.4x	5.2x	4.7 %	4,013.6	221.4
MYR Group, Inc.	MYRG	331.6	317.5	6.1 %	0.4x	0.3x	6.6x	4.7x	40.2 %	780.4	48.0
Pike Electric Corporation	PIKE	282.9	400.1	9.7 %	0.6x	0.6x	6.3x	5.7x	10.8 %	660.4	63.8
Argan, Inc.	AGX	199.7	43.0	8.9 %	0.3x	NA	3.4x	NA	NA	141.9	12.7
UniTek Global Services, Inc.	UNTK	54.2	191.7	8.6 %	0.4x	0.4x	5.2x	4.1x	25.1 %	432.3	37.2

Low	54.2	43.0	5.5%	0.3x	0.3x	3.4x	4.1x	4.7%	141.9	12.7
Mean	1,055.4	1,160.5	8.2%	0.6x	0.5x	6.7x	5.8x	23.1%	1,850.6	140.6
Median	526.3	642.9	8.6%	0.5x	0.6x	6.4x	5.7x	25.1%	961.7	93.0
High	4,671.0	4,363.0	10.7%	0.9x	0.8x	12.0x	8.1x	47.4%	4,623.8	363.7

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, TPC

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THE MCLEAN GROUP TECHNOLOGY & TELECOMMUNICATIONS SERVICES PRACTICE

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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.

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