Power & Communications Industry Update

August 7, 2023

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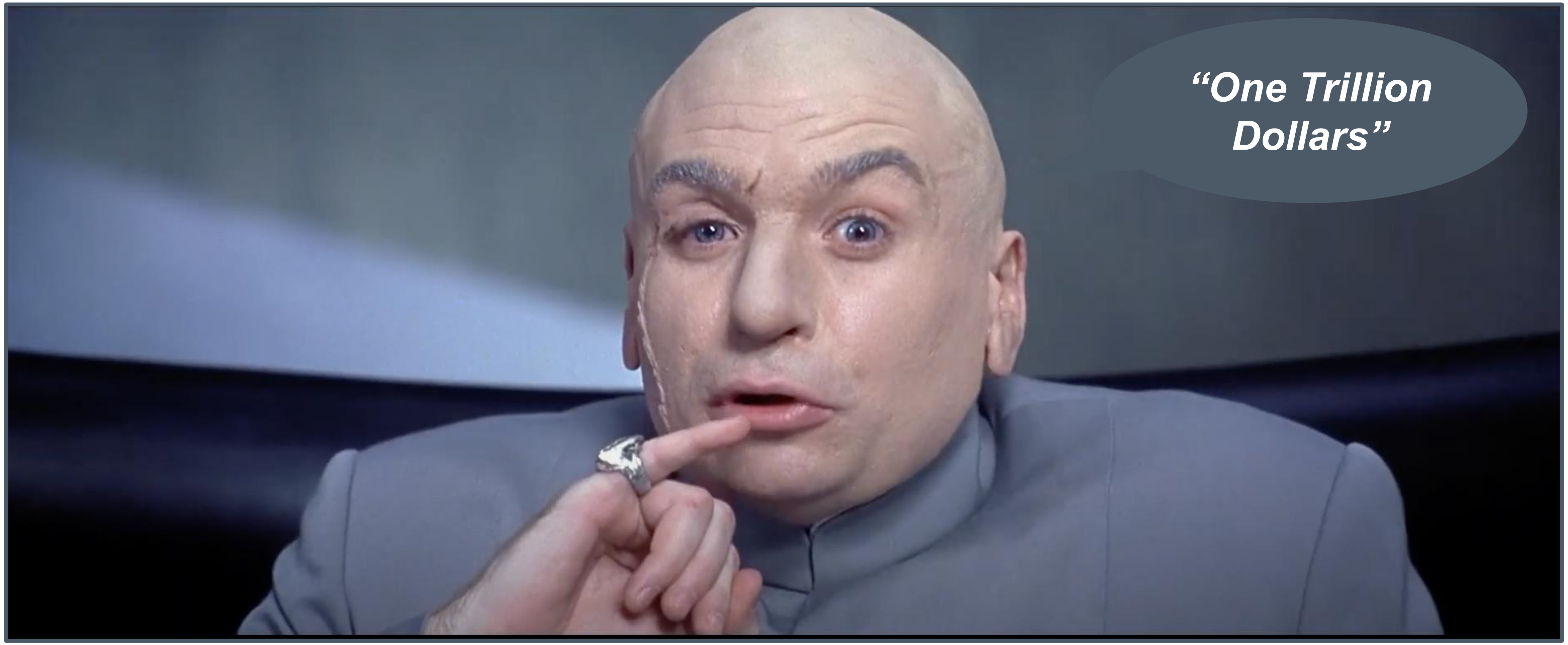
2023 Deal Downturn

M&A and IPO volumes continue their decline in the first six months of 2023…



- The YoY drop in value of mergers and acquisitions and initial public offerings is **roughly down $1.3 trillion in the first half of 2023**

Source: Bloomberg

2023 Market Update

Fiscal and monetary policy

- Contractionary policy by the Federal Reserve and federal spending legislation is having a ripple effect throughout the economy

Labor Market

- Persistent workforce shortages and increasing labor costs are weighing on industry participants and impacting operations

External Challenges

- Supply chain hiccups, international conflict, and the lingering impacts of COVID-19 are creating a challenging economic backdrop

Infrastructure Funding

- Key legislation, such as the Infrastructure Investment and Jobs Act, is beginning to impact non-building infrastructure spending

New vs. Old Economy

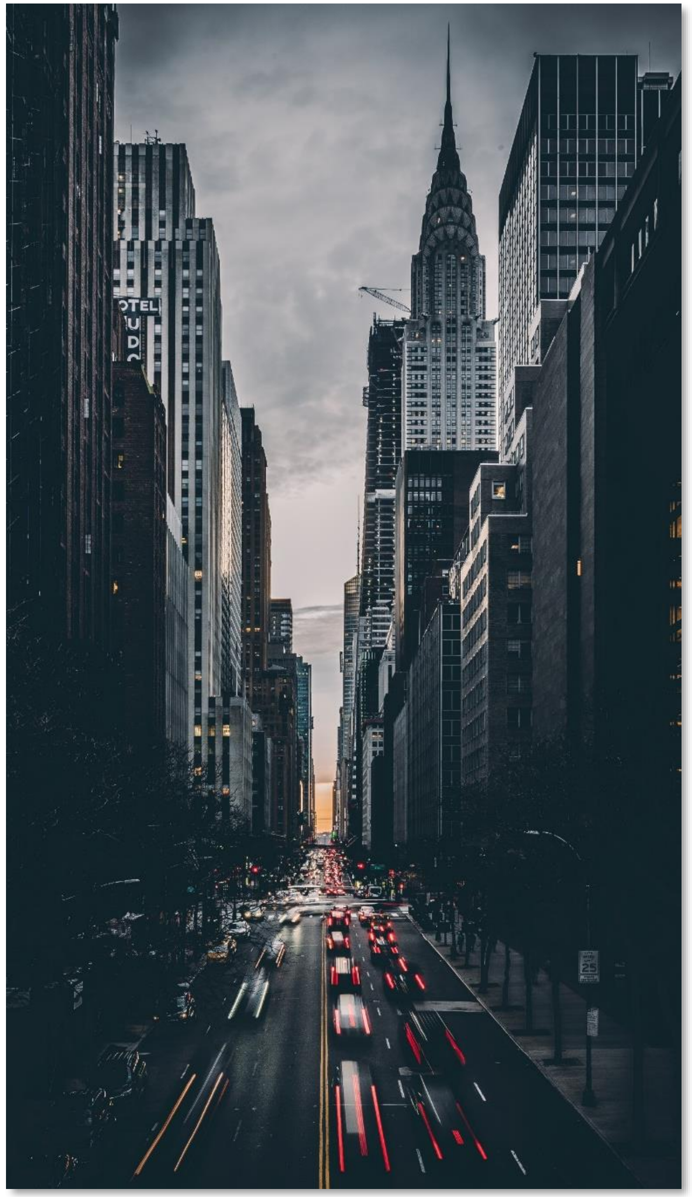
- Economic conditions have an uneven impact across market segments and geographies and are creating winners and losers in today's evolving economic environment

Source: FMI Capital Advisors

Top Risks Today & Tomorrow

Labor shortages and elevated input prices consistently rank among the top challenges for contractors

Rank	2022	2023	Future
1	**Lack of skilled / craft workers**	**Price increases (materials & equipment)**	**Lack of skilled / craft workers**
2	**Price increases (materials & equipment)**	**Lack of skilled / craft workers**	**Economic slowdown**
3	Design-related issues	Lack of field supervisors	Subcontractor defaults
4	Changes in insurance terms / costs	Design-related issues	**Price increases (materials & equipment)**
5	Subcontractor defaults	Changes in contract language	Project delays

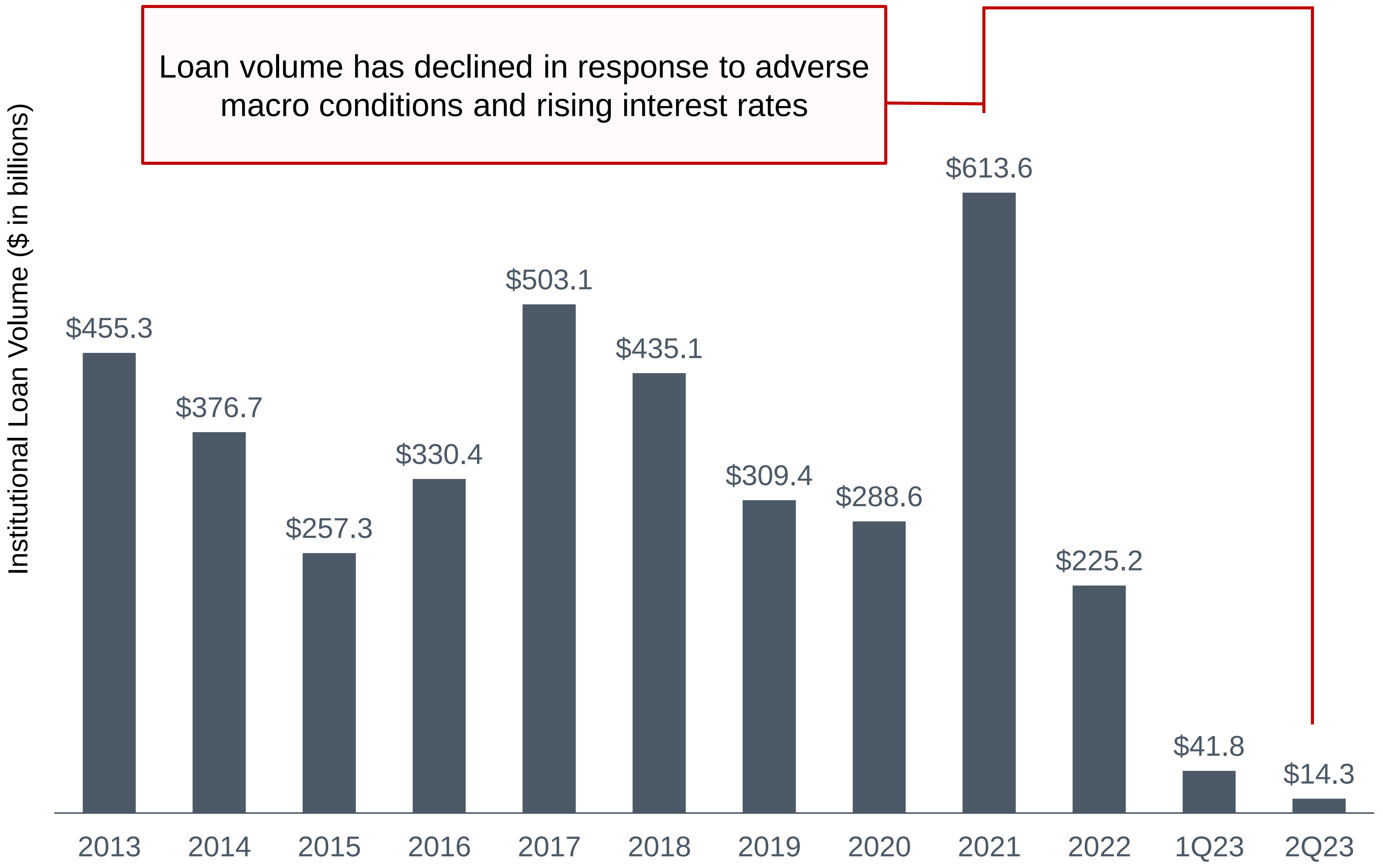


Source: 2023 FMI Talent Survey

Tighter Lending Standards

- **2022 saw a drastic decrease in institutional loan volume due to:**
  - Heightened possibility of potential recession
  - Fed rate hikes
- Tighter lending standards were imposed by way of **higher premiums charged on riskier loans, increased spreads of loan rates over the cost of funds, and higher costs of credit lines**
  - More widespread tightening has been reported among mid-sized banks compared to larger
- Banks continue to cite concerns including an **uncertain economic outlook, reduced tolerance for risk, funding costs, and the expected deterioration of customer credit quality** as reasons for tight lending standards

Institutional Loan Volume Trend *(2013 to Q2 2023)*

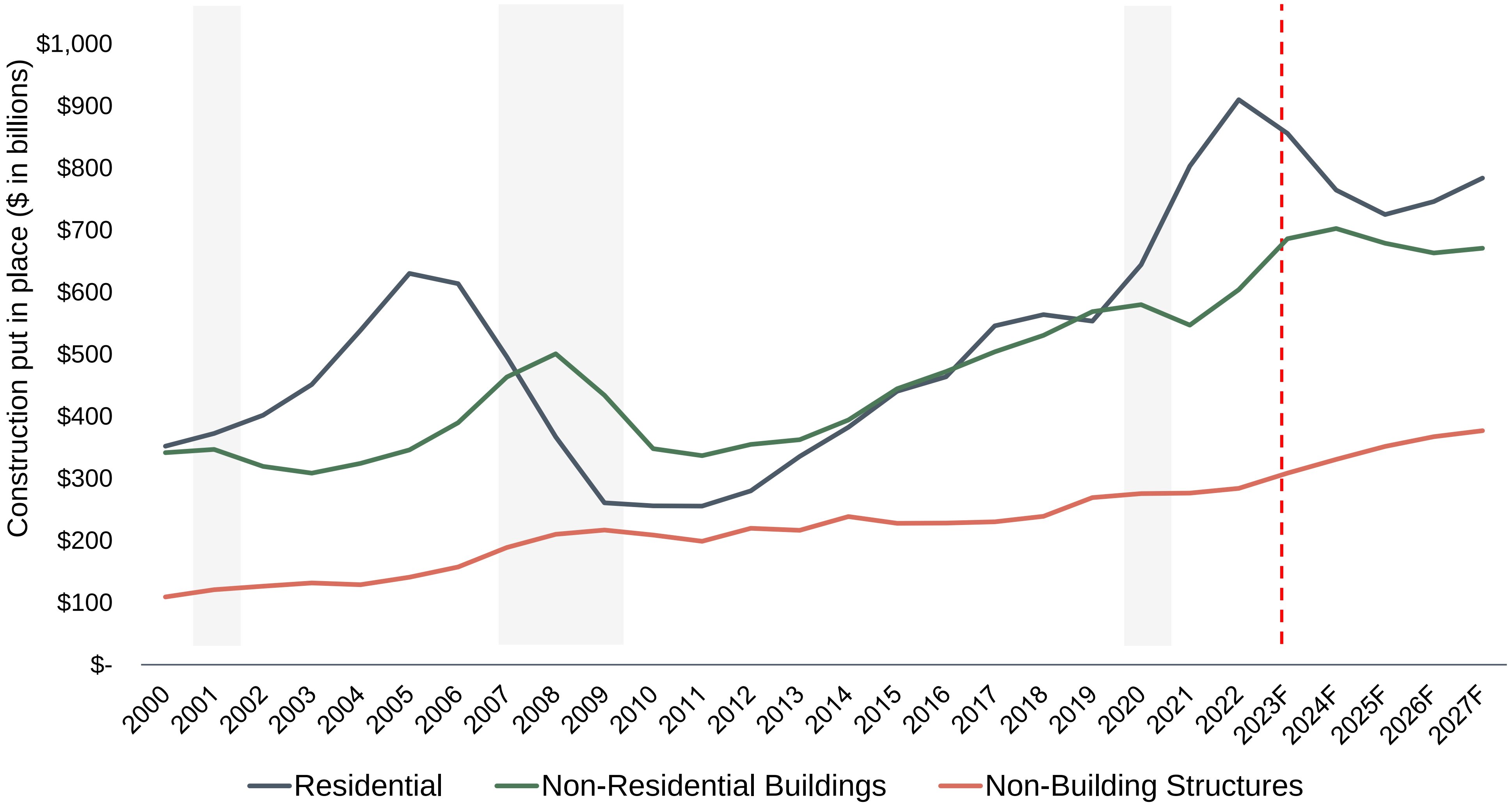


Source: Federal Reserve, Pitchbook

Bulls & Bears Coexist at All Times

Near-term contraction is largely concentrated in residential markets

Total Construction Put in Place Estimated for the U.S.



2023 - 2027 Forecast

Residential -8%

Non-Residential -2%

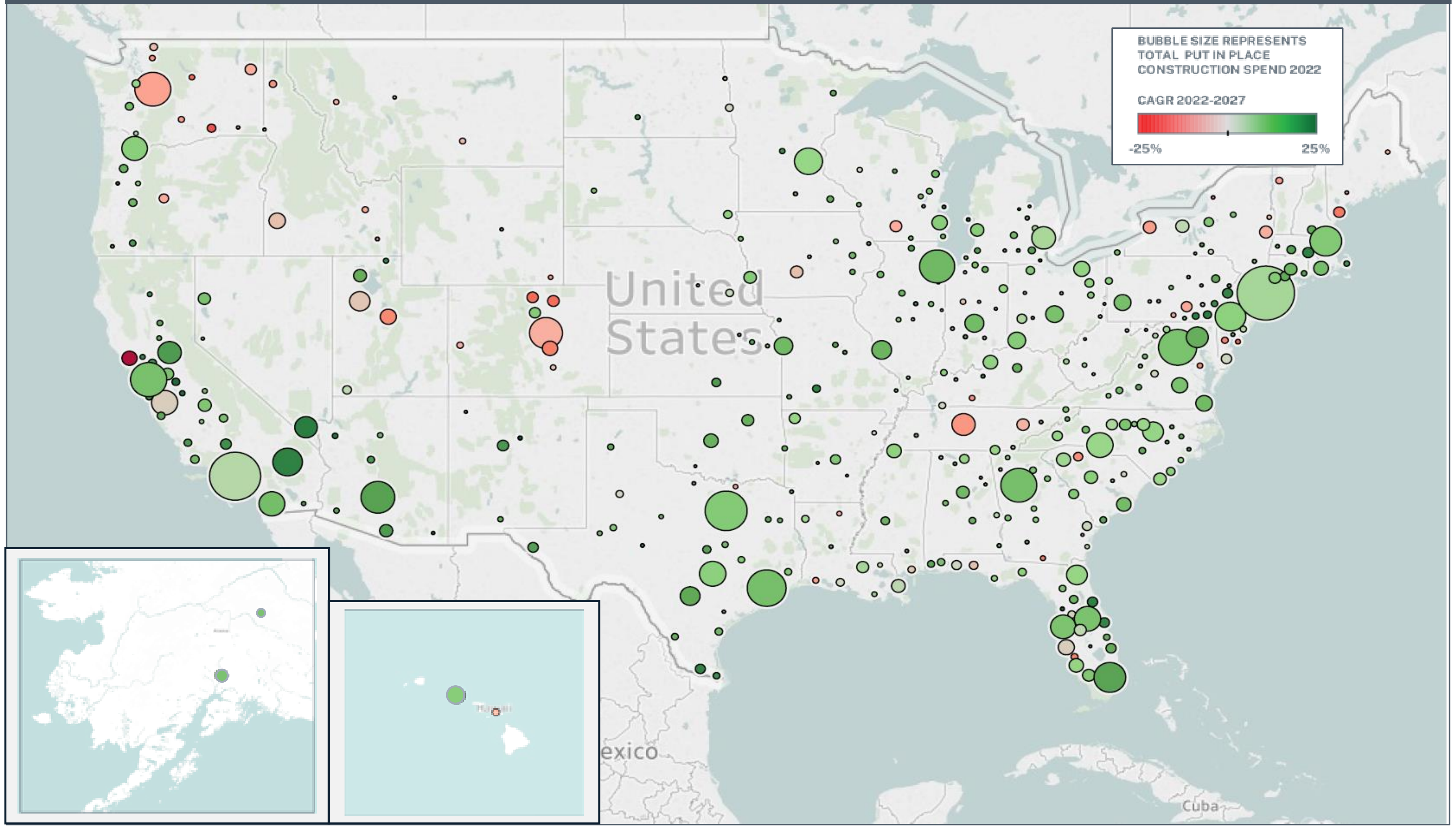
Non-Building +22%

Source: FMI Q3 2023 Outlook

Construction Spending Put in Place by Geographical Region (2018)

Construction spending is highly concentrated in major U.S. metropolitan markets

Total Construction Put in Place 2018 and Forecast Growth (2018 through 2023)

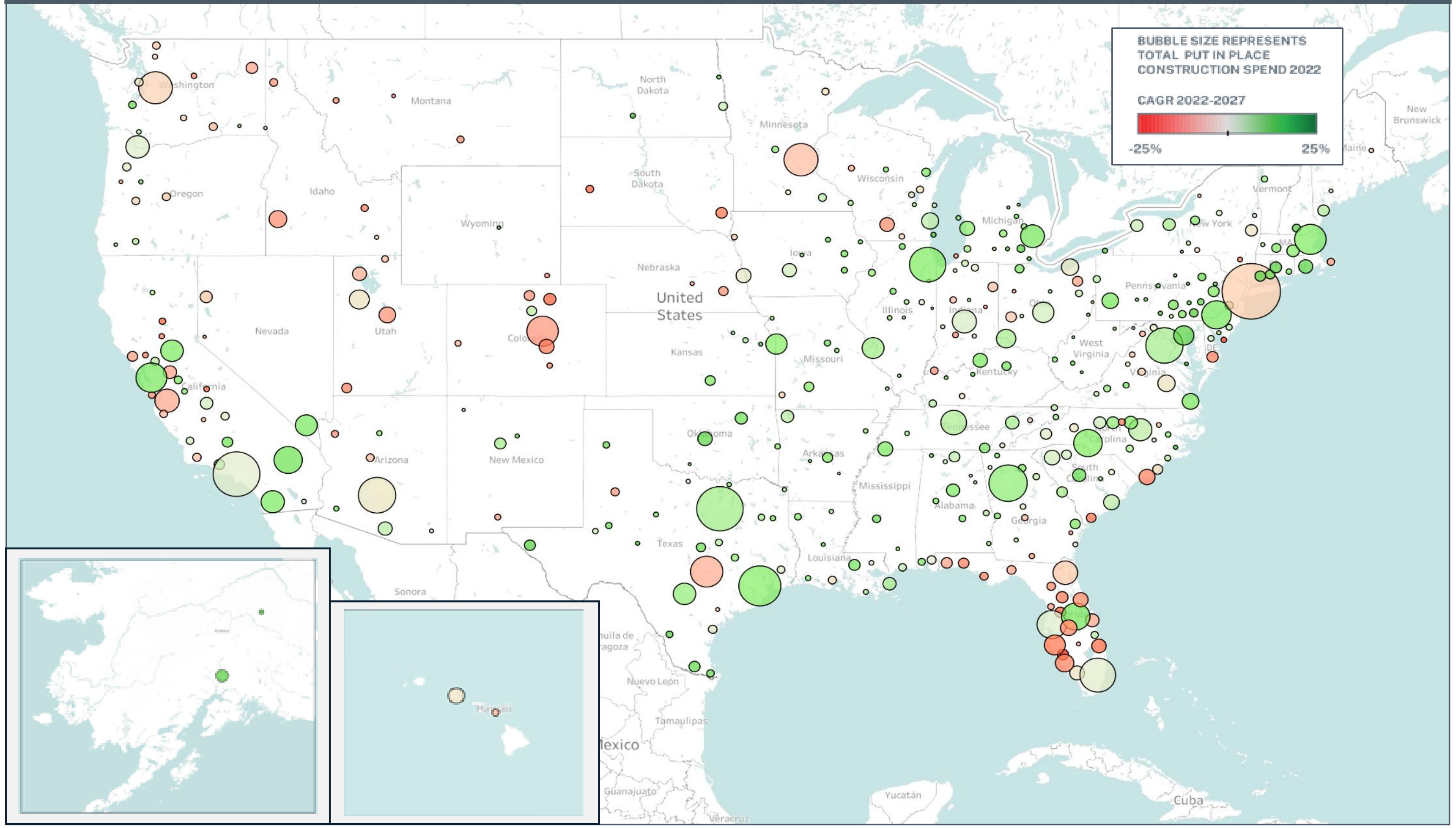


Source: FMI Q2 2018 Outlook

Construction Spending Put in Place by Geographical Region (2022)

Construction spending is highly concentrated in major U.S. metropolitan markets

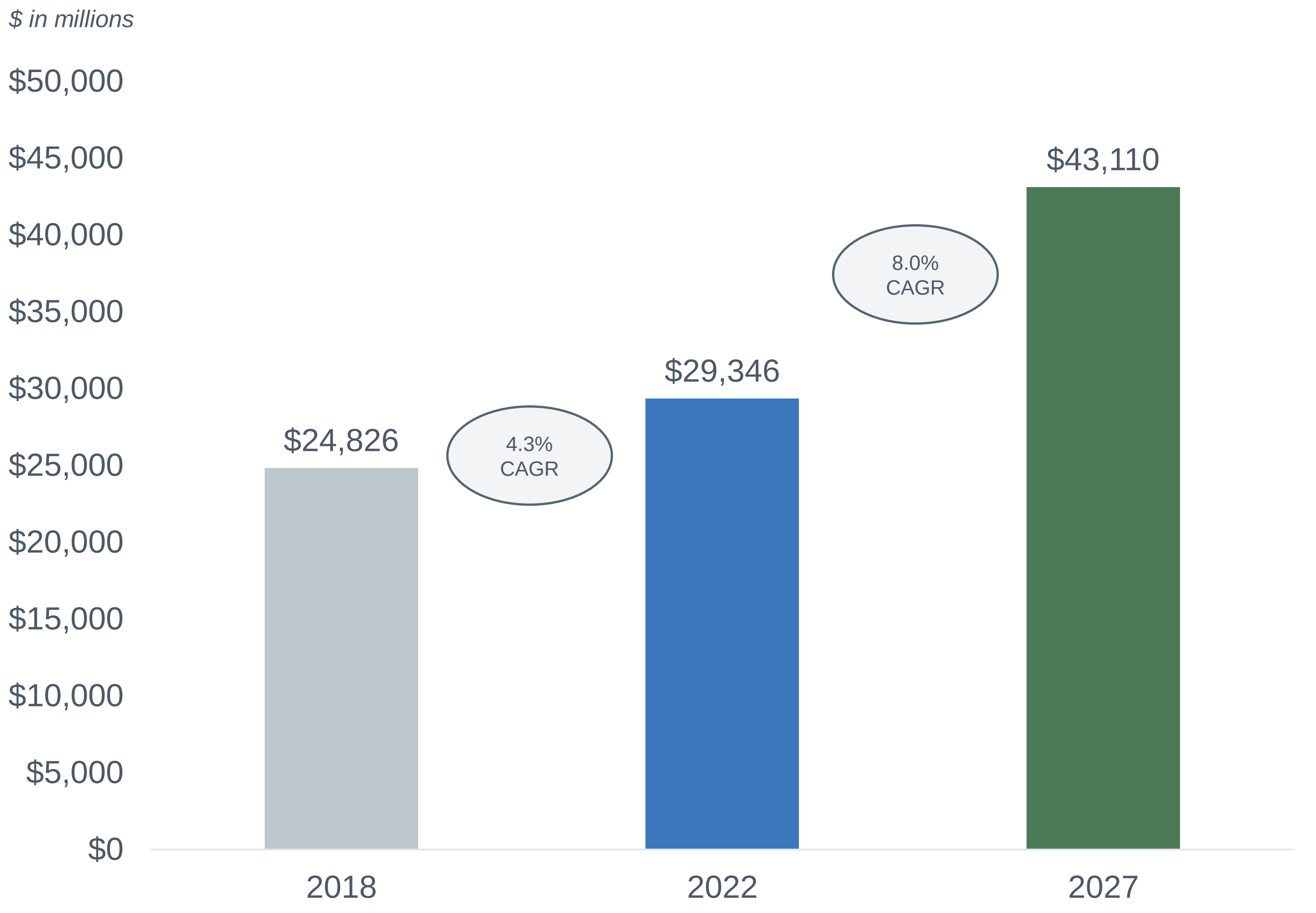
Total Construction Put in Place 2022 and Forecast Growth (2022 through 2027)



Source: FMI Q3 2023 Outlook

Market Opportunity - Electric Transmission

U.S. Addressable Market Opportunity



Definition

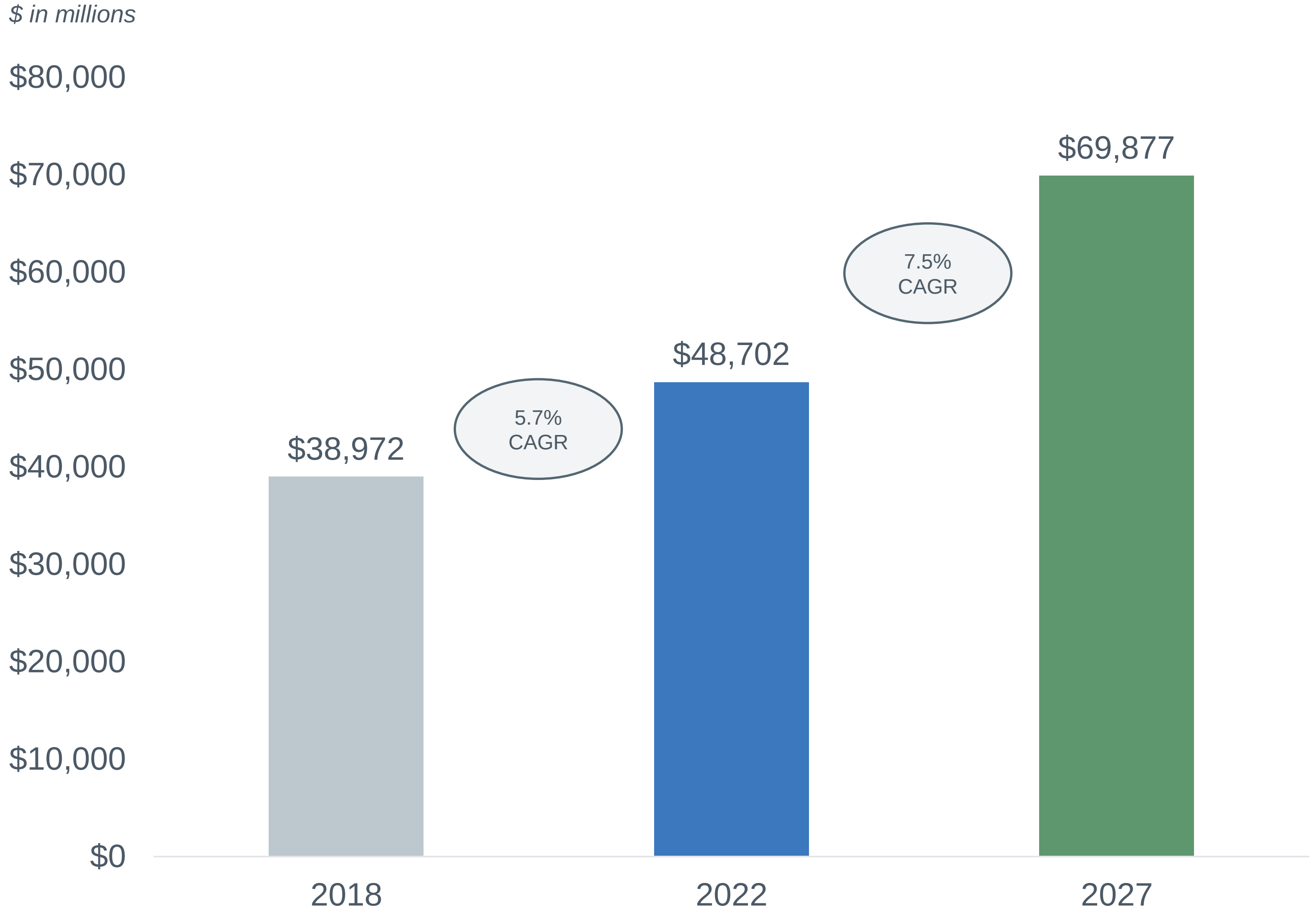
Assets designed for the bulk movement of electricity from a generating site to an electrical substation for local use/distribution. This is primarily aerial in nature.

Market Commentary

- Utility programs focused on resilience and storm hardening are continuing to drive need for retrofit projects.
- Distributed generation associated with utility scale renewables is driving greenfield activity to connect generation to substations and the broader grid.
- Retrofit activity is occurring to "upsize" the current line capacity to account for increased electrification associated with data centers, industrial facilities and electric vehicles.
- Recent federal government bills have funded additional spending and also driven increased electrification needs.

Market Opportunity - Electric Distribution

U.S. Addressable Market Opportunity



Definition

Assets utilized for the localized distribution and delivery of electricity to its final location of use. This includes both aerial and underground lines and the equipment that supports it.

Market Commentary

- Population migration and a growth in construction in certain regions is creating greenfield need.
- Undergrounding activity is a substantial part of resiliency and hardening programs.
- Utility programs focused on resilience and storm hardening are continuing to drive need for retrofit projects.
- Retrofit activity is occurring to "upsize" the current line capacity to account for increased electrification associated with data centers, industrial facilities and electric vehicles.
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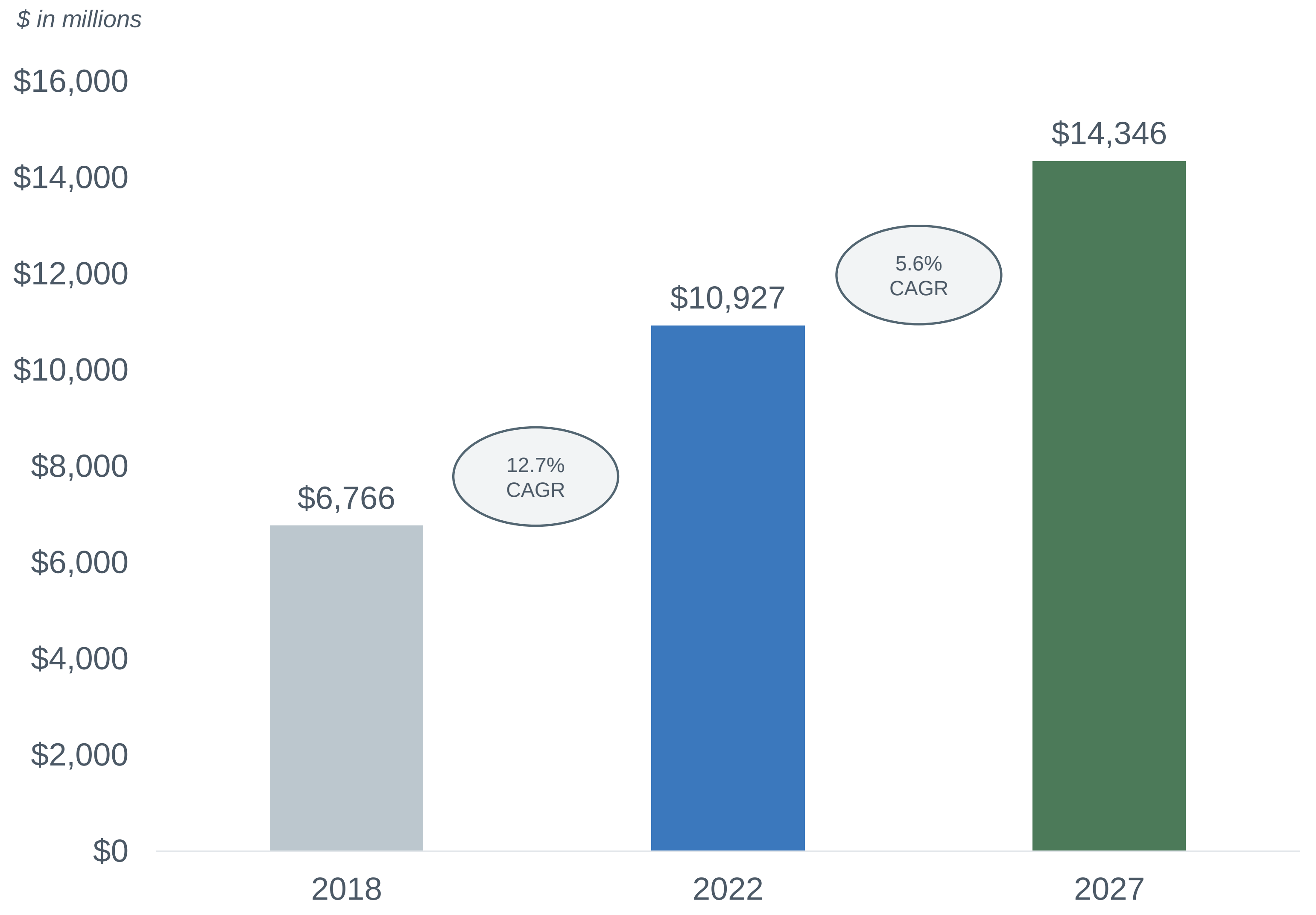
Market Opportunity - Electric Substations

U.S. Addressable Market Opportunity



Definition

Substations connect the transmission and distribution grid to each other, as well as to generation facilities whether centralized or decentralized.

Market Commentary

- Distributed generation associated with utility scale renewables is driving greenfield activity to connect generation to substations and the broader grid.
- Utility programs focused on resilience and storm hardening are continuing to drive need for retrofit projects.
- Retrofit activity is occurring to "upsize" substation capacity to account for increased electrification associated with data centers, industrial facilities and electric vehicles.
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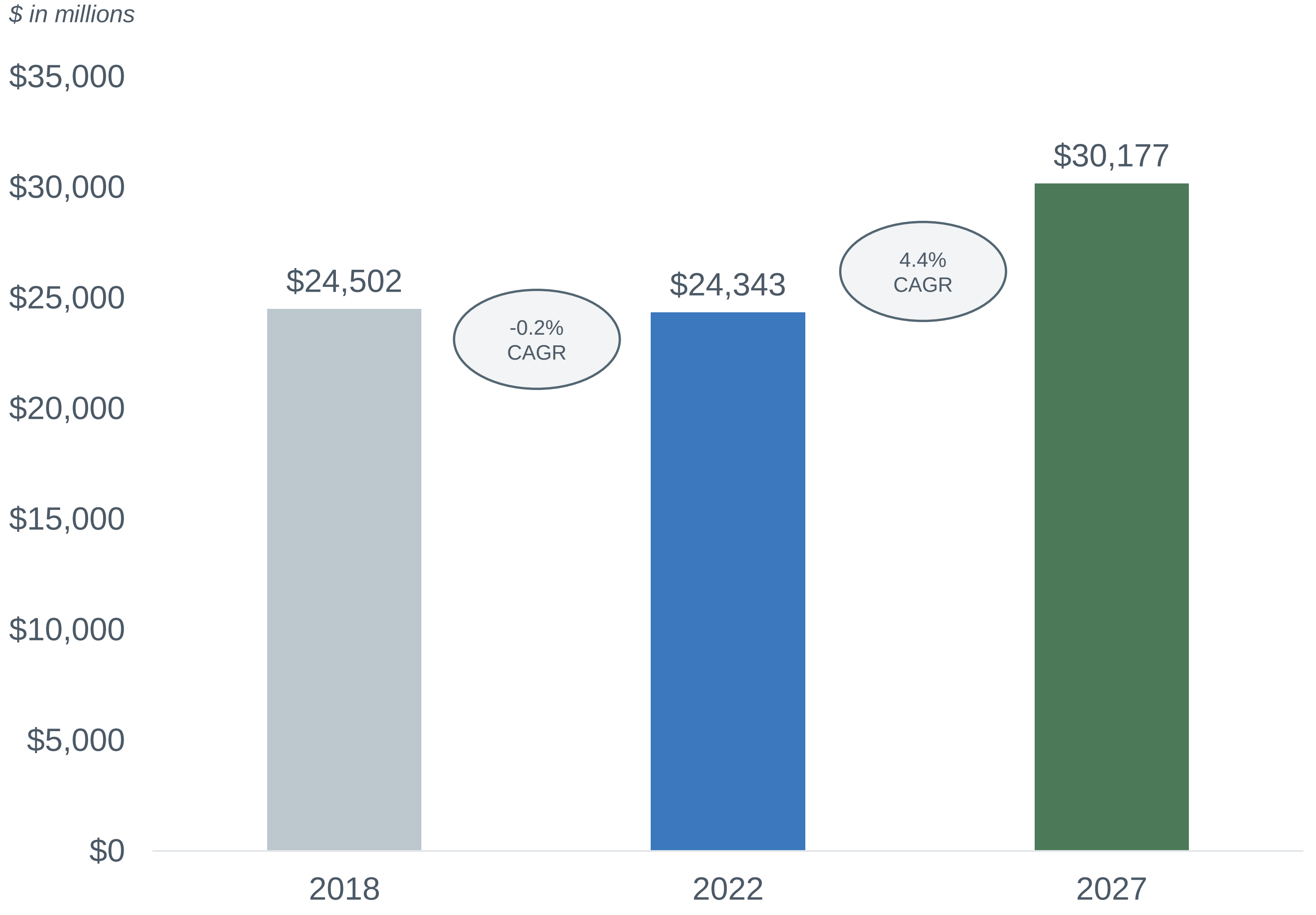
Market Opportunity - Telecommunications

U.S. Addressable Market Opportunity



Definition

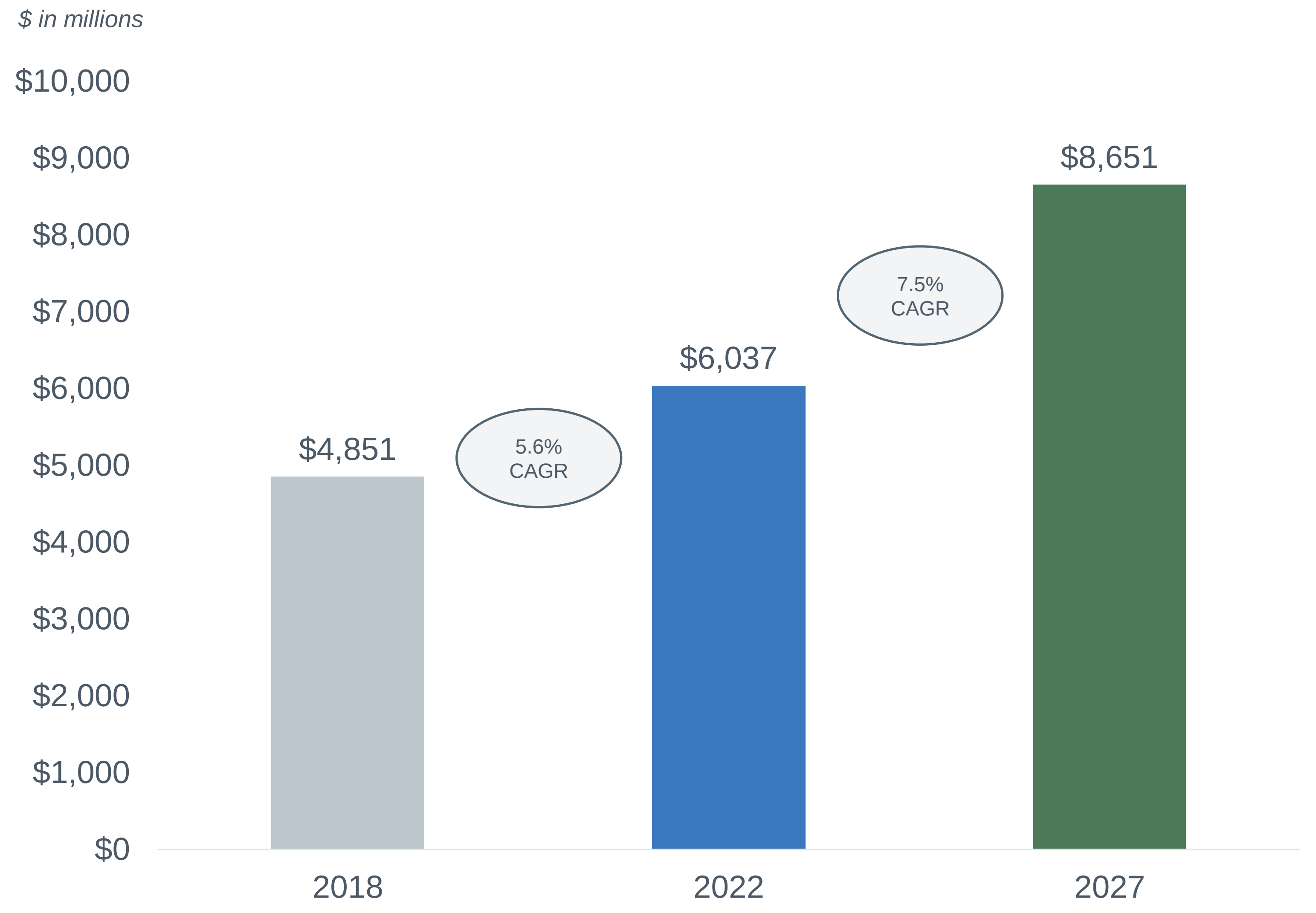
Structures and assets utilized for transmission and distribution of telecommunications, internet services, and other related communication sources.

Market Commentary

- Continued roll-out of 5G programs drive a steady flow of related spending.
- Rural broadband funding and initiatives are expanding coverage and creating greenfield activity.
- Fiber optic line retrofitting and upgrading is occurring in urban and suburban settings based on the increased bandwidth needs.
- Decentralized data needs and data centers are creating additional greenfield needs to further connect the telecommunications grid.

Market Opportunity - Engineering Services

U.S. Addressable Market Opportunity



Definition

Engineering design services related to greenfield or brownfield electrical infrastructure; namely transmission, distribution and substations.

Market Commentary

- Population migration and a growth in construction in certain regions is creating greenfield need.
- Undergrounding activity is a substantial part of resiliency and hardening programs.
- Utility programs focused on resilience and storm hardening are continuing to drive need for retrofit projects.
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Bulls vs. Bears – Embracing Cautious Optimism

Industry sentiment is beginning to improve across numerous sectors following a number of consecutive surveys which saw consistent declines

Architectural Billings Index (ABI)	Nonresidential Construction Index (NRCI)	Heavy Civil Construction Index (HCCI)	CIRT Sentiment Index
May 2023	Q3 2023	Q2 2023	Q2 2023
51.0	**49.8**	**55.5**	**52.8**
↑ 48.5 prior month	↑ 48.0 prior quarter	↑ 51.3 prior quarter	↓ 53.3 prior quarter

Note: Any score above 50 suggests expansion, below 50 suggests contraction
Sources: AIA, FMI, CIRT

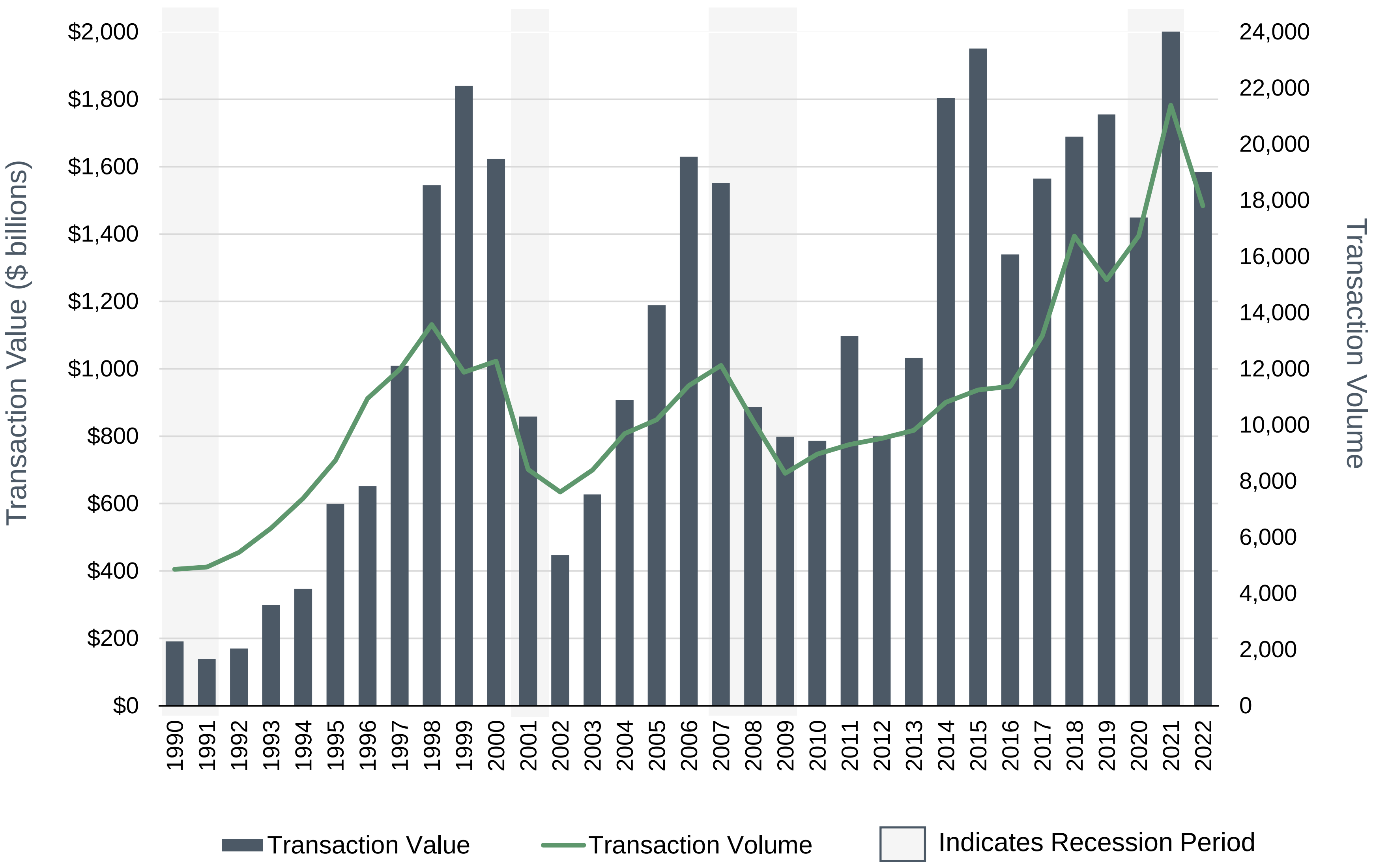
Lead Cabling – Is this the next asbestos?

- Market Reaction
  - Sharp decline following the story, then recovery followed by gradual decline
  - In contrast to market nearing records highs
- EPA Reaction
  - July request to ATT & Verizon discussing lead cabling used
  - Citing authority under the "Superfund" legislation
- Shareholder Reaction
  - Verizon sued by investors over the potential liability

How does M&A Recover from a Recession?

- M&A has historically contracted and undergone a prolonged recovery following a recession
- Despite historical cycles, more recent trends have suggested a "decoupling" of deal activity from the broader economy
    - A combination of strong cash positions for public companies **(S&P 500 companies are currently carrying 40% more cash now than in 2014)** and **elevated "dry powder"** for private equity sponsors means acquirers may continue to make acquisitions despite a potential downturn
- **Companies that remained active during the 2008-2009 recession outperformed those who were inactive,** with average annual shareholder returns of 6.1% from 2007 to 2017, compared with 3.8% for those that hit pause
- A sharp turnaround in activity is not anticipated in the near-term, but deal count and values are expected to accelerate each quarter over the next four quarters

Historical Deal Activity during Recessions



Total Volume and Value of Deals by U.S. Acquirers

Sources: Pitchbook, PWC Analysis, Bain & Company

Key Takeaways

- 2023 is proving to be a challenging year due to an array of industry factors
  - High, persistent inflation driving increased tightening activity by the Federal Reserve
  - Tight labor markets and limited availability of skilled labor weighing on contractors
  - Elevated materials input prices impacting profitability for contractors
- Residential markets are expected to contract through 2023 and beyond, while nonresidential and non-building segments will remain more stable
  - Real construction growth (inflation adjusted) will largely plateau through 2027
- Winners and losers in the "New Economy" mean that the recessionary impact will be uneven across the economy – certain sectors are poised for strong growth regardless of broader market performance
- Geography is a key determinant of growth, with spending highly concentrated among major metropolitan markets

Recent E&C M&A Activity – Coming Off Record Years

Demographic succession needs

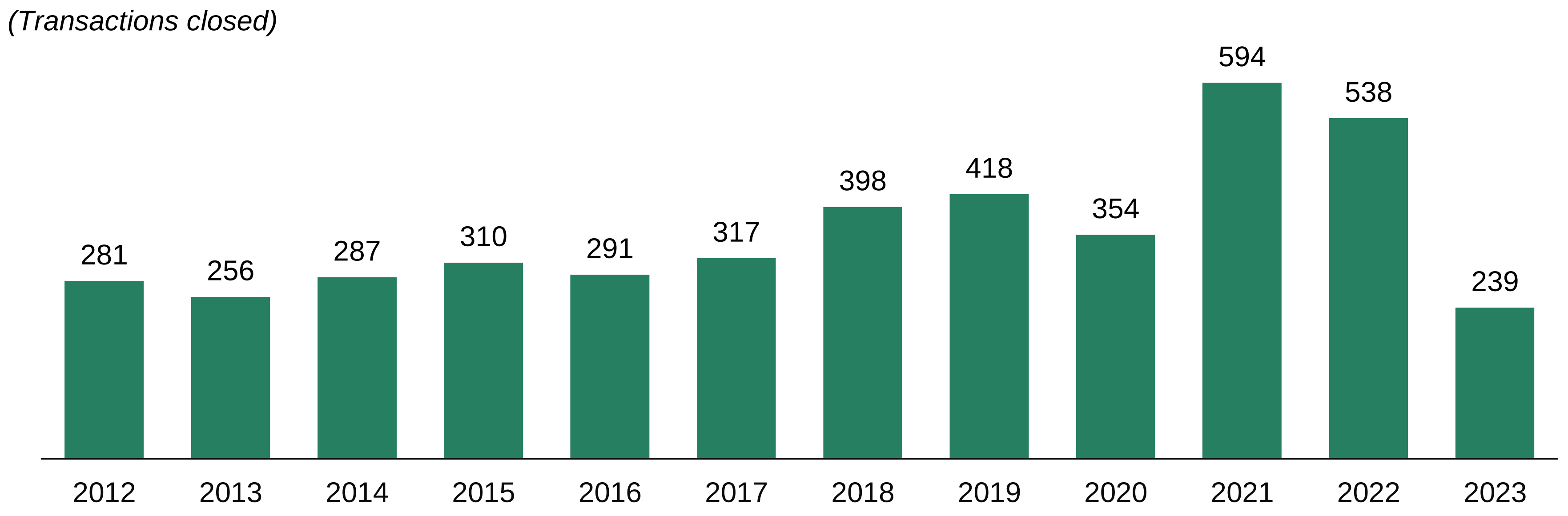
+

Increased buyer interest

=

Record M&A activity

E&C Deal Activity

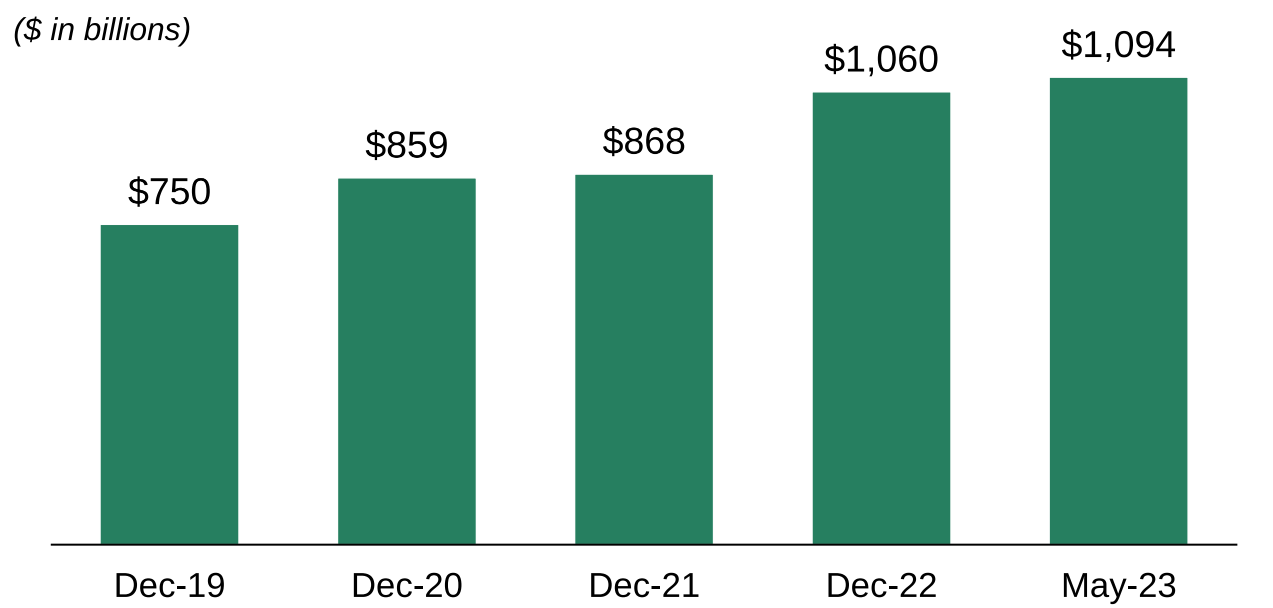


- 2023 transaction activity is expected to return closer to 2019 (pre-COVID) levels as the volume of transactions begins to normalize
- 2021 and 2022 proved to be extremely strong years for deal activity due to the COVID transaction backlog
- Smaller, strategic, and bolt-on acquisitions are becoming more attractive

Source: Capital IQ (as of 7/9/2023)

Private Equity is a Key Player in M&A Markets

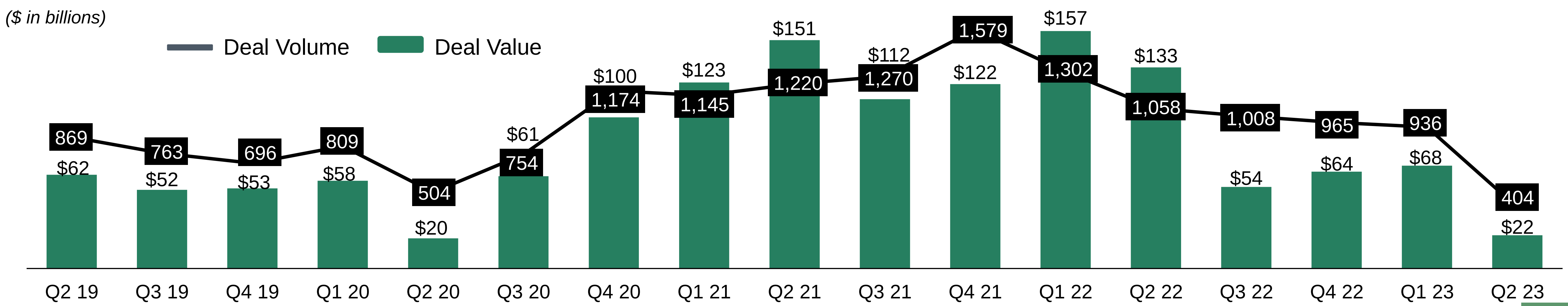
U.S. Private Equity Dry Powder



U.S. Private Equity Trends

- With plenty of dry powder left for PE firms, sponsor-to-sponsor exits will likely soldier on through the rest of the year as PE firms seek opportunities to spend down their capital, albeit at smaller sizes
- For 2022, U.S. PE firms completed nearly 4,500 deals with an aggregate value over $400 billion
  - Despite elevated levels of capital deployment, PE deal closings were down sharply to finish the year
- The volume of fund raises in 2022 has helped to keep pressure on PE funds' need to buy, driving up multiples for quality assets

U.S. Private Equity Buyout Activity



Source: PWC U.S. Deals 2023 Midyear Outlook

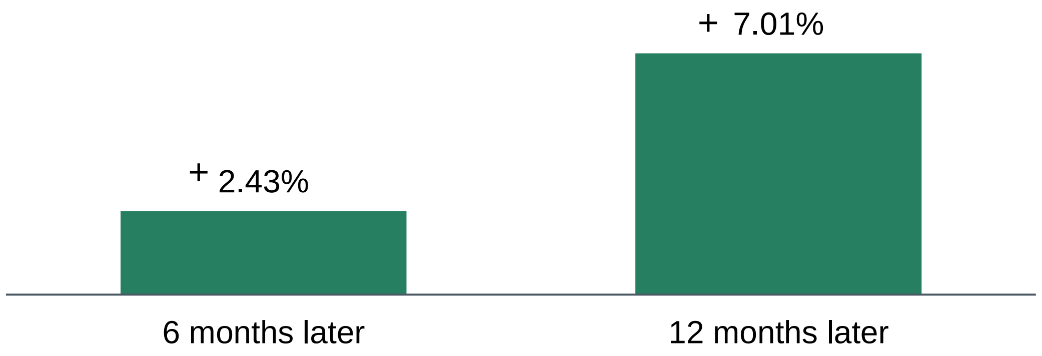
Downturns Create Opportunity

- The value of mergers and acquisitions and initial public offerings is roughly down $1.3 trillion in the first half of 2023
- In the near-term, smaller to midsize deals will be more attractive given lower risk, reduced financing needs, and lesser regulatory scrutiny
- The higher cost of acquisition financing will continue to make M&A transactions more challenging, dragging down valuations and giving buyers with strong cash reserves the upper hand in competitive bids

A Recessionary Environment Creates Opportunity

During the 2001 Dot Com bust, public companies that made acquisitions saw greater shareholder returns than the broader market

Median Shareholder Returns for Acquisitive Companies vs. Broader Sector Indices (2001)(1)



(1) PWC analysis of median shareholder returns following the 2001 recession for acquisitive public companies vs. their S&P 1500 indices

The Role of Financials Sponsors

- Sponsors, which remain well-equipped with record-levels of dry powder, are still capable of injecting new capital to drive additional value and create operational efficiency and scale
- The unprecedented rate of M&A activity in 2021 created hundreds of new platforms that still require continued additions to achieve investor goals and targeted returns
- Growth equity deals saw an uptick through Q1 2023, a trend that is expected to continue as these deals are not reliant on debt and apply active management to portfolio companies, despite often involving fractional ownership

Sources: Pitchbook, PWC Analysis, Bain & Company

Thank You PCCA!

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