CFA Institute Research Challenge

Hosted by

CFA Society of Miami

Stetson University - RGIP Team A

The CFA Institute Research Challenge is a global competition that tests the equity research and valuation, investment report writing, and presentation skills of university students. The following report was prepared in compliance with the Official Rules of the CFA Institute Research Challenge, is submitted by a team of university students as part of this annual educational initiative and should not be considered a professional report.

Disclosures:

Ownership and material conflicts of interest

The author(s), or a member of their household, of this report does not hold a financial interest in the securities of this company. The author(s), or a member of their household, of this report does not know of the existence of any conflicts of interest that might bias the content or publication of this report.

Receipt of compensation

Compensation of the author(s) of this report is not based on investment banking revenue.

Position as an officer or a director

The author(s), or a member of their household, does not serve as an officer, director, or advisory board member of the subject company.

Market making

The author(s) does not act as a market maker in the subject company's securities.

Disclaimer

The information set forth herein has been obtained or derived from sources generally available to the public and believed by the author(s) to be reliable, but the author(s) does not make any representation or warranty, express or implied, as to its accuracy or completeness. The information is not intended to be used as the basis of any investment decisions by any person or entity. This information does not constitute investment advice, nor is it an offer or a solicitation of an offer to buy or sell any security. This report should not be considered to be a recommendation by any individual affiliated with CFA Society of Miami, CFA Institute, or the CFA Institute Research Challenge with regard to this company's stock.

MASTEC, INC. (NYSE: MTZ)

Current Price: $65.24
Target Price: $56.88
Recommendation: SELL (12.8% Downside)

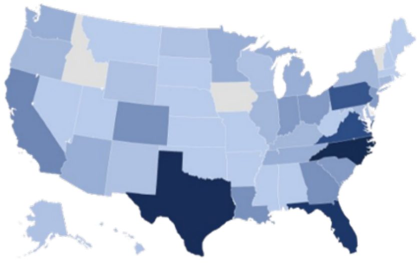
Sector: Industrials
Industry: Construction & Engineering
January 26, 2024

Figure 1: Company Factsheet

Concensus Price Target	$72.38
52-Week High	$123.33
52-Week Low	$44.65
Market Cap (bn)	$5.11
Shares Outstanding (mn)	78.8
Average Volume (mn)	0.77
Basic EPS (2022)	$3.05
P/E (2022)	22.18x
P/S (2022)	0.84x

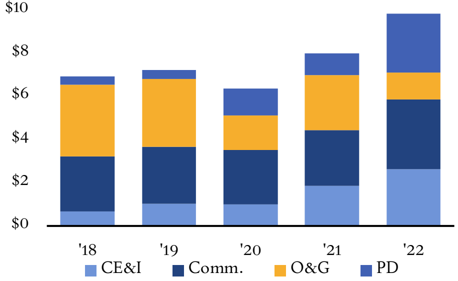
Source: Bloomberg

Figure 2: Operations by State



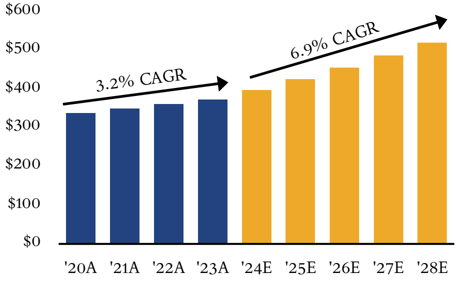
Source: Company Data, Team Analysis

Figure 3: Revenue by Segment (bn)



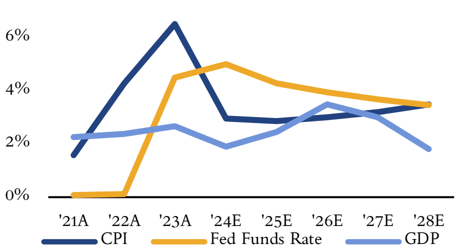
Source: Bloomberg

Figure 4: Industry Growth (bn)



Source: Deloitte, Team Analysis

Figure 5: Macroeconomic Forecast



Source: FRED, Team Analysis

BUSINESS DESCRIPTION

MasTec, Inc. (NYSE: MTZ) is a construction & engineering company headquartered in Coral Gables, Florida. As the third-largest publicly traded company among its peer group, which includes Quanta Services, Dycom Industries, Primoris Services, and MYR Group, MasTec operates in the United States, Canada, and Mexico (Figure 2). The company has reported $9.79 billion in revenue and serviced 212 infrastructure projects across 46 different clients in FY22. MasTec designs, builds, installs, and maintains infrastructure through vertical integration. To facilitate its services, the company relies on a limited number of distributors who specialize in technology, infrastructure, and industrials.

Business Model

MasTec performs a wide variety of complete Engineering, Procurement, and Construction (EPC) capabilities and plant services & maintenance for its client's individual needs. A significant portion of services offered are provided under master service or other service which are multi-year agreements (51%), with the remainder of work pursuant to contracts for specific installation projects (49%). MasTec's business is broken into four key operating segments by revenue FY22: communications (33.1%), clean energy & infrastructure (26.8%), power delivery (27.9%), and oil & gas (12.5%) (Figure 3). MasTec originally built its foundation and achieved early top-line growth through legacy segments focused on oil & gas (O&G) and communications. Industry trends have evolved, and as a result, segments like clean energy & infrastructure (CE&I) and power delivery are central to MasTec's business strategy and brand positioning.

Growth Strategy | Shift to sustainable infrastructure

As a clean energy contractor in North America, MasTec has repositioned itself to spearhead the transition to a low-carbon economy, orchestrating a transformation across key business segments. This evolution is steered by a dual-pronged approach, executed through a diversified suite of product offerings and M&A. Given the shifting tides of the United States' energy landscape, MasTec is attempting to steer its focus away from traditional O&G pipelines. The company is currently redirecting its attention toward emerging opportunities, such as solar & wind generation, carbon & air capture pipelines, and hydrogen power generation. This shift to sustainable infrastructure positions MasTec toward an evolving and unfolding energy paradigm.

M&A: In July 2022, MasTec acquired IEA, a leading provider of utility-scale renewable energy infrastructure solutions, for ~$1.1 billion. This acquisition expands MasTec's CE&I segment, specifically in wind power, contributing to its overall construction and maintenance capabilities. The CE&I segment is expected to overtake communications as MasTec's top revenue stream at 33.3% FY23.

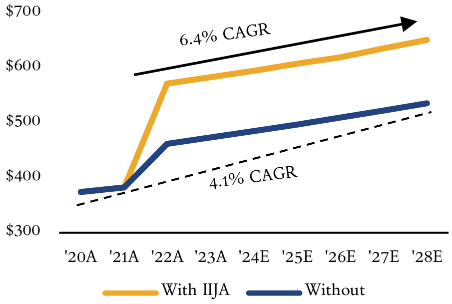
INDUSTRY ANALYSIS & COMPETITIVE LANDSCAPE

The United States construction & engineering industry was valued at $372 billion in 2023 and has grown at an annual rate of 3.2% since 2017. The industry has shown signs of deceleration with estimated FY23 nationwide construction spending down 2.5% YoY. However, it is forecasted to grow at a CAGR of 6.9% over the next five years (Figure 4). This growth is partially driven by government funding for sustainable infrastructure communication projects. Despite these opportunities, MasTec has faced challenges in fully leveraging these growing markets, hindering production capacity due to poor strategic planning and supply constraints.

Market Dynamics | Higher rates are here to stay

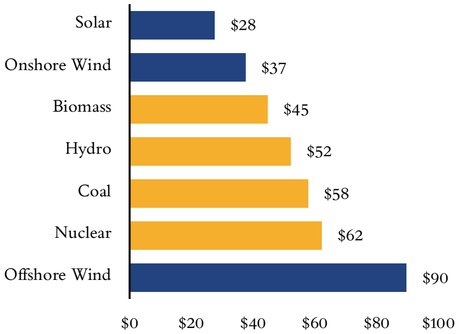
The industry faces strong macroeconomic headwinds amidst a slowing economic backdrop. A multifactor forecasting model was created to assess the macroeconomic environment and its impact on the industry (Appendix 5). This model employs multiple regression, autoregressive integrated moving average (ARIMA), and Holt-Winters seasonal forecasting approaches to project the quarterly Consumer Price Index (CPI) and the Federal Funds Rate over the next five years (Figure 5). The elevated input costs and interest rate environment have led to a reduction in demand in FY23 as the industry relies heavily on leverage. Demand is expected to be hampered across all of MasTec's operating segments through 2024 due to forecasted interest rates remaining heightened. Although wage growth is anticipated to stabilize in the coming year, the construction

Figure 6: Infrastructure Investment (bn)



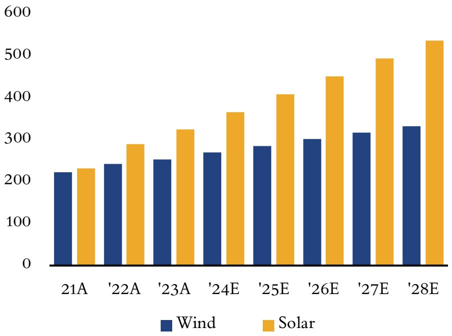
Source: USAfacts, Team Analysis

Figure 7: LCOE by Electricity Source



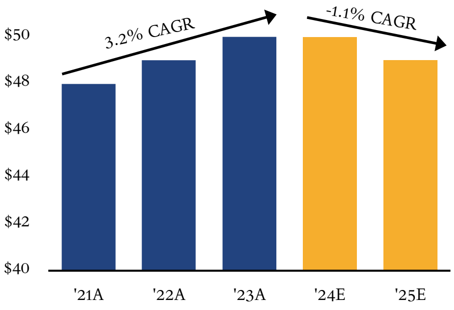
Source: Statista, Team Analysis

Figure 8: US Clean Energy Capacity



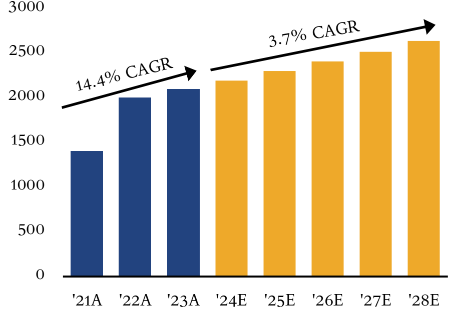
Source: Statista

Figure 9: US 5G Operator CapEx (bn)



Source: Statista

Figure 10: Grid Queue (gW)



Source: EIA, Grid

industry faces a misalignment between high labor demand and low supply. This imbalance will likely offset the potential benefits MasTec might gain from a stabilizing labor market.

Demand-Side Drivers | Poorly positioned to take advantage of growth areas

Over Reliance on Government Funding: The industry's growth hinges significantly on government funding through the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA). The IIJA facilitates increased spending on infrastructure with a focus on transportation, water pipelines, and CE&I. Meanwhile, the IRA offers clean energy incentives, providing tax credits and other benefits to MasTec's clients for projects related to solar, wind, and energy storage. This legislative framework is set to inject $550 billion into CE&I, with an additional $114 billion earmarked for power delivery and $65 billion allocated to communications over the next decade (Figure 6). Despite this potential influx in funds, companies looking to access these subsidies have encountered challenges, especially in sustainable infrastructure where MasTec's clients are awaiting approval on funding packages. With its strategic pivot towards sustainable infrastructure, MasTec has become indirectly reliant on this government funding. Management has acknowledged that the company is experiencing permitting delays and uncertainty in tax equity funding, which are adversely affecting MasTec's financial performance, both in terms of revenue and profits.

Solar Favored Over Wind Energy: There has been a pronounced shift towards solar energy in the renewables energy sector, eclipsing wind energy is terms of investment and growth potential. This shift is attributed, in part, to the disproportionate impact of interest rates, inflation, and regulations on wind energy, leading to a 50% increase in its levelized cost of energy (LCOE) over the last two years. By 2028, solar is expected to provide the cheapest electricity with a LCOE of $27.5 while onshore and offshore wind are expected to be $37.4 and $89.6 per mwh, respectively (Figure 7). This cost dynamic has redirected capital flows, with solar investments surging by 34% YoY, while wind investments have simultaneously declined by 35% in FY23. The solar sector is poised for a robust CAGR of 16.7% over the next five years, far outstripping the wind sector's expected CAGR of 5.5% (Figure 8). MasTec's acquisition of IEA, a company with a primary focus on wind energy, fails to expand market share in solar's burgeoning segment and operates within a segment that is not anticipated to experience growth over the next decade.

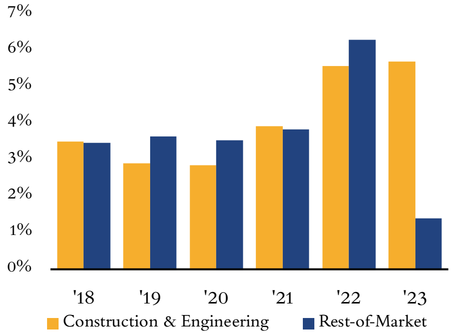
5G Takes a Backseat: Demand for faster and more reliable communication networks has been on the rise, supported by government initiatives like the FCC's "FAST" Plan, the Rural Digital Opportunity Fund and the 5G Fund for Rural America. However, deployment challenges, such as network complexity and regulatory hurdles, have dramatically heightened project costs. This increase has prompted major telecommunication companies such as AT&T, Verizon, T-Mobile, and Dish Network to spend 50% less than expected on 5G in FY22. Pledging to slow spending over the next few years, reduced investment in 5G infrastructure will directly impact companies like MasTec who rely on the expansion of 5G for its communications segment growth (Figure 9). MasTec reported a 7.3% decrease in revenue from 3Q22 to 3Q23, reflecting the slowdown in 5G deployment. With no clear forecast on when companies will see an appetite to invest back into 5G infrastructure, MasTec is expected to see minimal benefit from the 5G rollout for the foreseeable future.

Supply-Side Drivers | Challenges persist for MasTec's operating capacity

Lack of Surrounding Grid Infrastructure: Despite heightened investments in CE&I, insufficient grid infrastructure remains a prominent obstacle to the progress of renewable energy projects. The construction and activation of wind and solar power generators are frequently hampered by prolonged bureaucratic procedures and the necessity for substantial grid enhancements. In the United States, the electric grid boasts an installed capacity of approximately 1,250 gigawatts; however, an extensive backlog of over 2,000 gigawatts awaits connection—a backlog that surged by 40% in 2022 (Figure 10). Of the projects that entered the queue between 2000 and 2017, less than a quarter of projects were completed by 2023. Stakeholders widely acknowledge the interconnection queue lengths as the primary impediment to deploying renewable energy. The demanding application process, combined with the costly grid upgrades required, often compels wind and solar power generators to confront unaffordable fees. This leads to either a scramble for additional funding or withdrawal from projects entirely. With no short-term solution to reduce the queue, industry demand will remain in disequilibrium with supply, reducing MasTec's operating capacity.

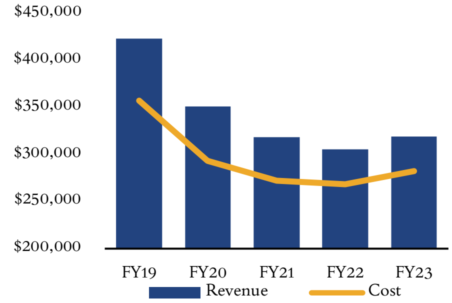
Labor Force Challenges Drag Efficiency: The stretched labor force has created a shortage of roughly 650,000 workers in the construction industry with an unemployment rate of 3.7% in

Figure 11: Wage Growth



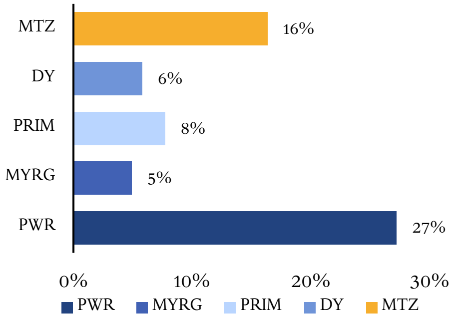
Source: Bloomberg

Figure 12: Revenue vs. Cost Per Employee



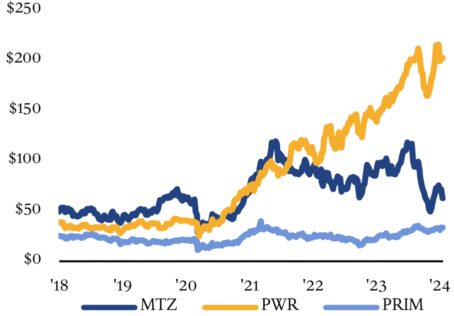
Source: Bloomberg, Team Analysis

Figure 13: Market Share



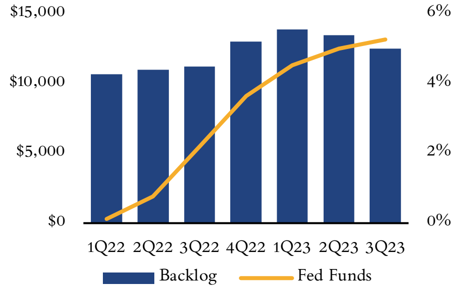
Source: Bloomberg, Team Analysis

Figure 14: Stock Price History



Source: Bloomberg

Figure 15: Backlog vs Fed Funds Rate



Source: Bloomberg

December 2023. The tight labor market has strengthened worker's bargaining power with the industry facing persistent wage growth relative to the rest of the market, evidenced by a 5.7% and 1.4% YoY increase in 4Q23 respectively (Figure 11). MasTec is facing similar problems as the industry, having encountered difficulties in effectively recruiting and deploying its workforce. In the CE&I segment, the company has resorted to excessive hiring, necessitating ongoing expenditures to sustain resources until project initiation. Conversely, in the O&G and communications segment, management points to hiring challenges leading to project delays. Labor challenges, stemming from the high labor costs and shortages, are anticipated to remain long-term. As a result, MasTec has seen revenue per employee drop while cost per employee spiked (Figure 12). MasTec's management has failed to adequately address these challenges which are expected to threaten its operating efficiency over the next several years.

Competitive Positioning | Diversification strategy results in a lack of expertise

Market Share: The construction & engineering industry is a relatively concentrated yet highly competitive market. The market has more than 35,000 companies, with 375 having more than 500 employees. In 2022, MasTec's latest filing year, the company captured 16.3% market share by revenue, a 0.7% increase since 2017 (Figure 13). A peer group of MasTec's primary competitors was established based on geographic reach, sub-industries, and similar financial profile. The peer group is as listed: Quanta Services, Dycom Industries, Primoris Services, and MYR Group.

Acquisition Strategy Harms Positioning: The strategic misstep in MasTec's acquisition strategy has proven detrimental to the company's standing within key operational segments. As MasTec contends with heightened competition from industry peers such as Quanta and Primoris, both of whom strategically enhanced its CE&I portfolios through acquisitions, MasTec's response was the reactionary acquisition of IEA. This impulsive move led MasTec to pay a substantial 34% premium for a company primarily focused on wind generation—an area outside of MasTec's expertise. While MasTec's competitors efficiently leverage synergies from their acquisitions, MasTec finds itself allocating more resources to address the aftermath. Consequently, the company is unable to proactively invest in reclaiming market share from competitors, thereby compromising its future positioning.

INVESTMENT THESIS

MasTec Inc. (NYSE: MTZ) is placed with a "SELL" recommendation given a 12-month price target of $56.88. This implies a 12.8% downside compared to the current stock price of $65.24 on January 25, 2024. The target price is formulated on a discounted cash flow (DCF) model supported through sensitivity, scenario, and simulation analysis, as well as a relative valuation model. MasTec's recommendation stems from **1)** an unfavorable interest rate environment, **2)** lack of cash flow to finance organic and inorganic growth, **3)** managerial failures to integrate recent acquisitions, and **4)** diversification into sustainable infrastructure, weakening capabilities to deliver core services. Consequently, MasTec is not expected to adequately reward shareholders over the next 12 months due to weak top-and-bottom line performance.

High Interest Rate Driven Slowdown Curtails Client Capital Spending

The industry has faced strong macroeconomic headwinds driven by the high interest rate environment, prompting customers to reassess new infrastructure projects. Given the industry's substantial reliance on leverage to achieve margin targets, the heightened costs of capital have exerted upward pressure on financing, resulting in margin compression and diminishing the attractiveness of undertaking projects. This has already seeped into MasTec's business, with management citing client project delays during the 3Q23 earnings call as a key reason behind the firm's underwhelming performance. Furthermore, the adverse effects of high-interest rates are evident in MasTec's future business outlook, as reflected in the decline of MasTec's order backlog from $13.9 billion in 1Q23 to $12.5 billion in 3Q23 (Figure 15). Amid a higher-for-longer Federal Reserve (FED) policy, financing costs will remain elevated, ultimately leading to a sustained drop in demand for MasTec's services.

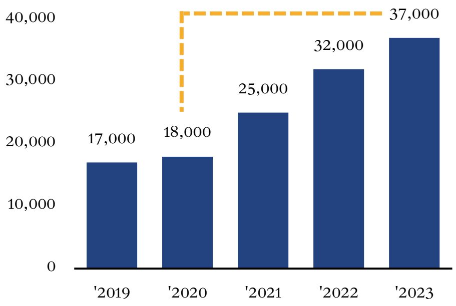
Elevated Net Leverage Hampers Growth Prospects

Debt-financed mergers & acquisitions (M&A) activity has overextended MasTec's use of debt to make several strategic acquisitions as they pivot towards becoming a clean energy infrastructure firm. This transition, coupled with broader macroeconomic factors, has caused a downturn in MasTec's financial robustness, specifically concerning its leverage and credit health. With a BBB-rating, the lowest in the investment-grade category, MasTec's current balance sheet raises concerns with several key leverage metrics reported higher than its peers. In an industry marked by fierce competition, MasTec faces the risk of stagnation, with little to no cash flow from operations (CFO) to fuel growth. The combination of debt repayments, increased interest expense, and a slowdown in demand pose a significant threat to MasTec's cash flow generation, impeding its ability to achieve target growth rates to compete with industry peers.

Operational Inefficiencies Drag Bottom Line

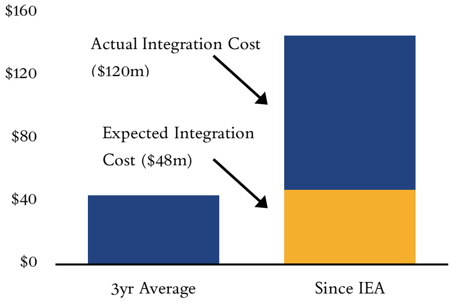
MasTec has experienced multiple integration challenges following an aggressive stretch of acquisitions that doubled its workforce to 37,000 (Figure 16). Poor management has been detrimental to financial performance and exacerbated general administration driven project delays. Notably, the recent acquisition of IEA has proven to be challenging, with ongoing integration difficulties severely disrupting operations. Management continues to face challenges in forecasting workload to capitalize on its resources and cater to its client expectations. MasTec's share price fell 18% to $49.03 following its 3Q23 earnings report as they revised and guided down IEA's revenue expectation from $2.7 billion to $1.7 billion for FY23E; reported integration costs have ballooned past $120 million from management estimates of $48 million (Figure 17). As a result of lower revenue and higher-than-expected integration costs, IEA's acquisition is expected to constrain MasTec from attaining its guidance targets for both top and bottom lines, exerting downward pressure on profit margins and earnings per share (EPS).

Figure 16: Employee Count



Source: Bloomberg

Figure 17: M&A Integration Cost (mn)

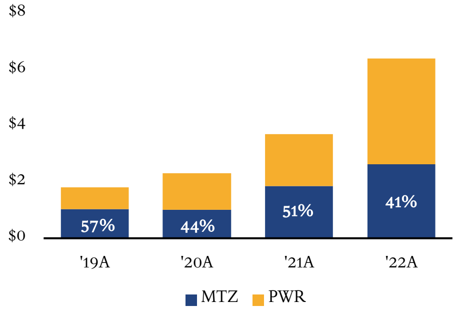


Source: Bloomberg

Diversification Erodes Specialized Expertise

MasTec's expansion into sustainable infrastructure has diluted its ability to offer quality services across both its legacy and emerging segments. The company's addition of wind energy solutions through its acquisition of IEA in the CE&I segment disrupts its established solar expertise, detrimentally impacting its market positioning. In comparison to its closest peer, Quanta Services (PWR), MasTec's relative market share has decreased significantly from 57.2% in FY19 to 40.9% in FY22 (Figure 18). While MasTec have seen a revenue compound CAGR of 57.7% since FY20, revenue growth is expected to normalize to 13.0% over the next five years while increased operating costs harm margins. Additionally, MasTec has missed significant opportunities in crude oil and natural gas pipelines, with global O&G expected to grow at a CAGR of 6.5% over the next five years. The company's plan to exit traditional O&G, and its focus on carbon & air capture pipelines, hydrogen power generation, and water pipelines has been lackluster. Due to a lack of investments in its legacy O&G segment, MasTec's O&G revenue share has contracted from 47.6% in FY18 to 12.5% in FY22. Combined, the heightened investments in these sustainable infrastructure segments have come at a cost, with its legacy segments losing steam. MasTec's revenue CAGR's in communications, O&G, and power delivery are forecasted to drop to 1.2%, 1.9%, and 4.1%, respectively, over the next five years. MasTec is expected to lose market share across all segments, given a five-year top-line CAGR of 6.8% and an industry CAGR of 6.9%.

Figure 18: Relative Market Share (bn)

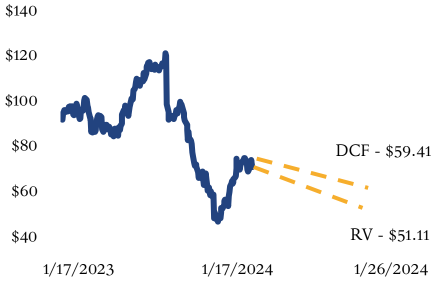


Source: Bloomberg

VALUATION

MasTec is issued with a SELL recommendation with a 12-month price target of $56.88, representing a 12.8% downside given the closing price of $65.24 on January 25, 2024 (Figure 19). The price target is derived through a DCF analysis, supported through sensitivity, scenario, and simulation analyses, as well as a relative valuation. The DCF and relative valuation models were assigned 70% and 30% respectively. The free cash flow to the firm (FCFF) model was given a larger weighting due to its projected outlook which the relative analysis is not able to adequately capture.

Figure 19: Valuation Downside



Source: Team Analysis

Discounted Free Cash Flow to Firm Analysis

Overview: The intrinsic value of MasTec was assessed using a DCF analysis with the Free Cash Flow to Firm (FCFF) approach (Figure 20). Estimates for the terminal value were projected using a perpetuity growth method and an EV/EBITDA exit multiple. The perpetuity growth rate was set at 2.3% by FY28E, derived from a weighted average of the long-term United States CPI, real GDP, and industry-specific growth projections. An EV/EBITDA multiple of 9.2x was chosen, reflecting MasTec's implied forward multiple. By giving equal weight to both methods, the DCF analysis suggests an intrinsic value of $59.41, representing a 8.9% downside from MasTec's current share price of $65.24.

WACC: The company's Weighted Average Cost of Capital (WACC) is projected to be 9.46% (Figure 20), based on a weighted average of team analysis (9.15%), Bloomberg estimates (8.80%), and industry average (10.03%). The cost of debt, at 5.90%, was determined by adding MasTec's bond yield spread to the risk-free rate, represented by the 10-year United States Treasury. The cost of equity was calculated through two methods: the Capital Asset Pricing Model (CAPM) and

Figure 20: FCFF Assumptions

Risk-Free Rate	4.71%
Beta	1.33%
Market Risk Premium	10.22%
Cost of Equity	12.05%
Cost of Debt	5.90%
D/E	0.5
WACC	9.46%
EV/EBITDA	9.2x
Terminal Growth Rate	2.31%

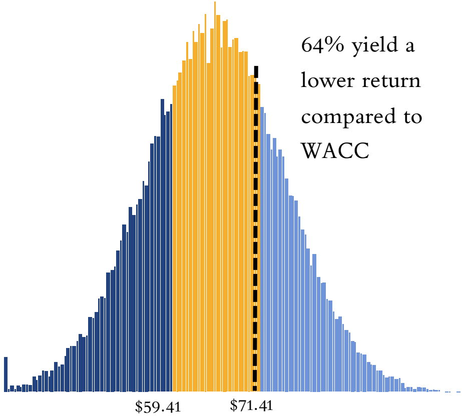
Source: Team Analysis

Figure 21: Scenario Analysis

	Bull Case	Base Case	Bear Case
Revenue Growth	20%	0%	-20%
Operating Margins	20%	0%	-20%
Terminal Growth Rate	2.81%	2.31%	1.81%
Exit Multiple	10.2x	9.2x	8.2x
Perpetuity Model	$81.53	$58.37	$40.49
Exit Muliple Model	$72.34	$60.34	$48.99
Weighted Price Target	$76.94	$59.36	$44.74

Source: Team Analysis

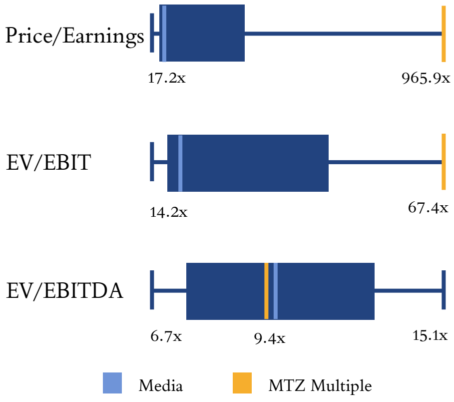
Figure 22: Monte Carlo Simulation



64% yield a lower return compared to WACC

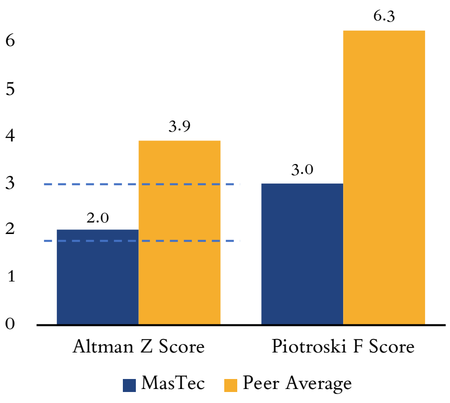
Source: Team Analysis

Figure 23: Relative Valuation



Source: Team Analysis

Figure 24: Financial Health Scores



Source: Team Analysis

the Earnings Capitalization Method (ECM). The CAPM, reflecting the United States expected market return and country risk premium, came to a COE of 12.05%. MasTec's levered beta was 1.33, calculated from a weighted average of 5-year monthly Bloomberg data estimates, a forecasted industry beta, and a regression analysis using the SPX as a proxy for market returns. The market risk premium was calculated by taking 20-year historical returns of SPX and subtracting the 10-year United States treasury yield. The alternate COE was calculated using the ECM reflecting market expectations of earnings coming to a COE of 11.31%. This method consists of forecasting MasTec's EPS, then comparing those earnings against the market risk premium found in the same fashion as the CAPM. The weighted COE between the two methodologies came out to 11.9% (Appendix 13).

Sensitivity Analysis: A sensitivity analysis was conducted to validate the DCF results, examining the impact of varying the perpetuity growth rate and the EV/EBITDA exit multiple. The analyses flexed revenue growth, WACC, terminal growth, and exit multiples (Appendix 14). The WACC was flexed +/- 150bps to account for shifts in market dynamics that could affect the discount rate. Revenue growth was flexed +/- 30.0% due to sensitivity to the macro environment and overreliance on government subsidies. The sensitivity analyses indicate a significant downside risk to MasTec's stock price, with 65.3% of outputs below the current share price when flexing WACC and 73.5% when flexing revenue growth.

Scenario Analysis: To further stress test the DCF model, scenarios fluctuated revenue growth, operating margins, the terminal growth rate, and exit multiples (Figure 21).

Bull Case: This scenario would see macroeconomic pressures ease earlier than expected with heightened government spending to boost revenue growth per year to 20.0% off the base. Cost pressures would be reduced, increasing operating margins by 20.0% off the base. Through strong macroeconomic tailwinds, the terminal growth rate would rise by 50bps to 2.8%. The EV/EBITDA multiple would increase to 10.2x as investors are willing to pay for multiple expansion in exchange for heightened growth. Under this scenario, MasTec's combined price target would be $76.94, a 17.9% upside from its share price.

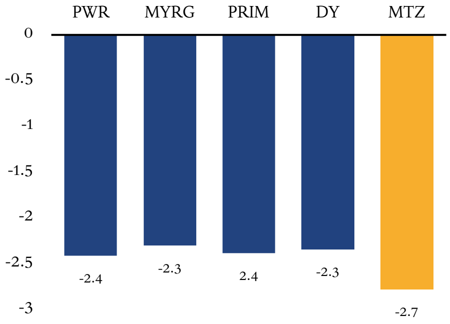
Bear Case: This scenario would see macroeconomic conditions worsen, with interest rates remaining higher than forecasted and political gridlock which would slowdown and reduce government spending. Revenue growth per year would fall by 20.0% off the base. Cost pressures would elevate, harming operating margins by 20.0% off the base. Through weak economic growth prospects, terminal growth would drop by 50bps to 1.8%. The EV/EBITDA multiple would contract to 8.2x as investors see growth prospects damper. Under this scenario, MasTec's combined price target would be $44.74, a 31.4% downside from its share price.

Monte Carlo: A Monte Carlo simulation with 50,000 iterations was conducted to test the variability of MasTec's price to key inputs such as WACC, terminal growth rate, revenue growth, and operating margins (Figure 22, Appendix 15). Upper and lower bounds were predicated on macroeconomic and microeconomic environments. The simulation finds 53.2% of scenarios below the current share price, implying a higher downside than upside risk. However, it does find 46.8% of scenarios above the current share price, highlighting the cyclicality of the industry. Furthermore, 42.6% of scenarios fall below the DCF's target share price with 64.0% of outcomes yielding a rate of return lower than the WACC.

Relative Valuation

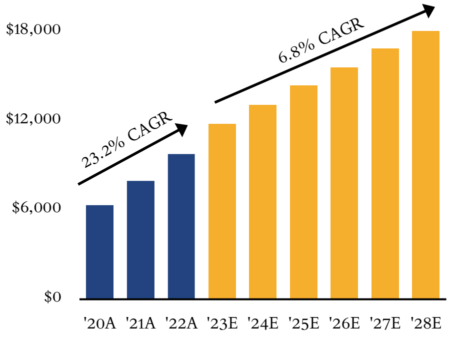
MasTec's relative valuation, based on a multiples analysis, suggests a target share price of $51.11, implying a 21.7% downside from the current share price of $65.24 (Appendix 16). The relative valuation was predicated on forward-looking multiples such as P/E, P/S, EV/EBITDA, and EV/EBIT multiples of MasTec and its peer group. To account for the considerable volatility in MasTec's stock price and financials, the target multiples were determined by calculating MasTec's historical premium relative to its peer group. This was done by averaging the peer group's multiples from FY19 through FY22 and then comparing them to MasTec's multiples during the same period. The resulting average historical premium was then applied to the peer group's average multiple for FY23 to establish MasTec's target multiples. Based on this method, the individual price targets calculated from P/E, P/S, EV/EBITDA, and EV/EBIT were $41.42, $175.17, $53.25, and $59.65, respectively (Figure 23). P/S resulted in a significant outlier, primarily attributed to the market's shift to focus on MasTec's margins and bottom-line over top-line performance and was thus not included in the calculation.

Figure 25: Beneish M Score



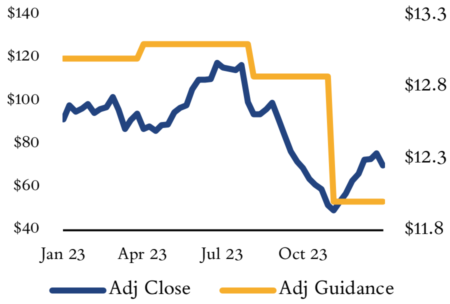
Source: Team Analysis

Figure 26: Revenue Growth (bn)



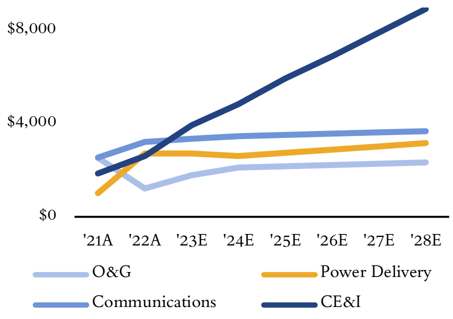
Source: Team Analysis

Figure 27: Stock Price & Revenue Guidance



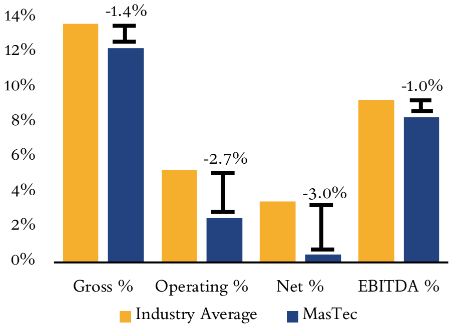
Source: Bloomberg, Team Analysis

Figure 28: Revenue Growth by Segment



Source: Team Analysis

Figure 29: Margin Inefficiency



Source: Team Analysis

FINANCIAL ANALYSIS

Overview | Financial health at risk

MasTec's pursuit of high growth at any cost has resulted in a compromised financial standing for the company. To gauge MasTec's financial health, the Piotroski F, Altman Z, and Beneish M scores were employed (Figure 24, 25). The Piotroski F score measures a company's overall financial strength with a score between 1 and 9. MasTec currently stands at 3, marking a notable 52% deviation below its peer group average of 6.3. The score is derived by assessing the company's performance across several criteria, assigning a score of 1 for positive movements and 0 otherwise. Negative trends in return on assets (ROA), upticks in leverage ratios, deteriorating current ratio, and diminishing gross margins contribute to a lower overall score. The Altman Z score is used to measure a company's risk of bankruptcy, with a score lower than 3 signaling a heightened probability of financial distress. MasTec's score, currently at 2.0, signals notable financial distress and is 48.7% below its peer average of 3.9. The low score reflects concerns regarding MasTec's profitability, constrained liquidity, and suboptimal asset turnover. Scored in the highly distressed zone, the company's Z-score points towards further erosion in its financial health. The Beneish M measures the likelihood of earnings manipulation by the firm, with a score less than -2.0 suggesting no manipulation and a score more than -2.0 indicating a possibility of manipulation. MasTec's score of -2.8, highlights the firm's credible portrayal of its earnings with no indications of manipulative practice. The metric is designed to identify potential inflation in financial metrics through the evaluation of variables such as sales growth, leverage, asset quality, and margins. The absence of abnormal fluctuations in these variables indicates the company's transparency in reporting earnings. These indicators collectively suggest that MasTec's financial health is at risk.

Revenue | Historical growth and weakness in projected revenues

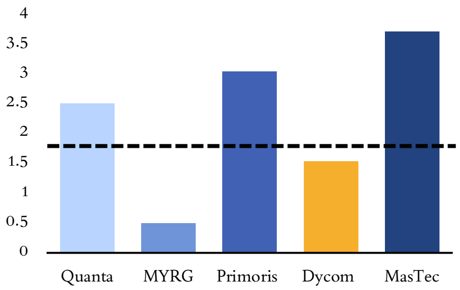
Since 2020, MasTec has seen revenue grow at a continuous CAGR of 23.2% (Figure 26). The company's revenue is split across CE&I, communications, power delivery, and O&G with CAGR's of 57.7%, 10.3%, 30.6%, and 4.1% respectively. As recently as FY20, CE&I was the smallest revenue by segment, accounting for 15.9% of total revenue. However, through the company's CE&I, the segment is expected to overtake communications, accounting for 33.3% of revenue in FY23E. Revenue growth has seen signs of slowing, primarily through a drop-off in its backlog. Driven by macroeconomic headwinds, MasTec's backlog has fallen from $13.9 billion in 1Q23 to $12.5 billion in 3Q23. Furthermore, the company has historically been able to translate roughly 75% of its backlog into revenue; they are now expected to convert at a lower rate due to heightened project cancellations and delays. Management is facing challenges in meeting its revenue guidance, with continuous quarterly and yearly guide-downs. YoY revenue guidance in 1Q23 was reported to be between $13.0 - $13.2 billion and has since been revised to $12 billion in 3Q23 due to an expected slowdown in revenue generated from communications (-5.80%), CE&I (-11.1%), and power delivery (-8.47%) segments (Figure 27).

Forecasting revenues through FY28E, revenue growth is expected to increase at a 6.8% CAGR (Figure 26)—a 70% drop off from the past three years (Appendix 6). Revenue CAGR's by segment are as follows: CE&I (13.0%), communications (1.2%), O&G, (1.9%), and power delivery (4.1%) (Figure 28). As MasTec operates in four distinct segments, a sum-of-parts valuation was utilized to determine individual segment revenue to sum to top-line. Utilizing stepwise procedures for a multi-variable linear regression, revenue is determined primarily through federal funds rate, backlog, total assets, and the industry segment's growth rates, resulting in R-squares between .78 and .94 across all segments. Each independent variable was forecasted utilizing ARIMA and Holt-Winters techniques. Each segment's revenue was then calculated using the multi-variable linear regression.

Margins | Shrinking margins across multiple business segments

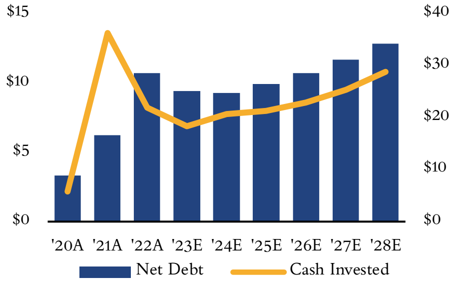
MasTec is poised for prolonged margin compression until FY28E, stemming from its diversification into CE&I, which has adversely impacted revenue growth and increased fixed and variable costs. The company faces challenges as clients experience higher funding costs, leading to a significant slowdown in revenue and cash flow across all segments. Project delays and cancellations have forced MasTec to absorb costs for non-active workers and other expenditures, without concurrent revenue generation. This has directly contributed to a 14.0% contraction in gross margins to 11.9% through FY28E, compared to the 3-year historical average of 13.6%. This compression results from the estimated cost of goods sold (COGS) rising to 88.1% of revenue, deviating from the 3-year average of 85.6%. EBITDA margins are expected to stay at the

Figure 30: Net Debt/EBITDA Ratio



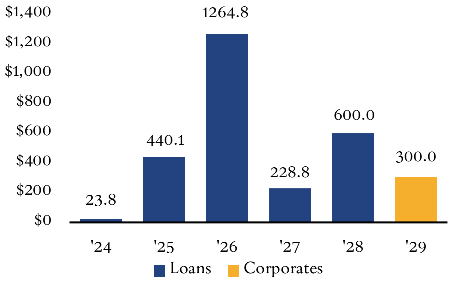
Source: Bloomberg, Team Analysis

Figure 31: Invested Cash Vs Net Debt



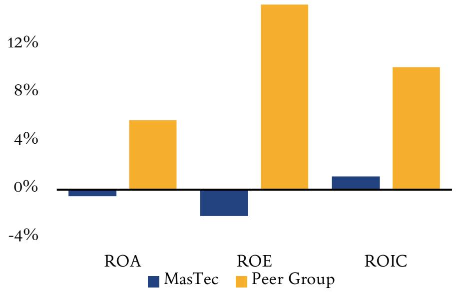
Source: Bloomberg, Team Analysis

Figure 32: Debt Distribution (mn)



Source: Bloomberg, Team Analysis

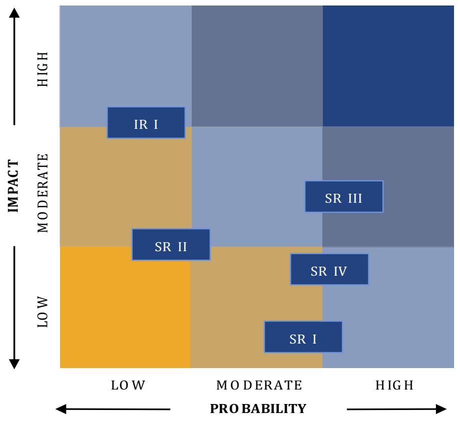
Figure 33: Profitability Metrics



Source: Bloomberg, Team Analysis

Figure 34: Heat Map

Systematic Risk – SR | Idiosyncratic Risk – IR



Source: Team Analysis

forecasted average of 7.0% through FY28E, declining from the 3-year historical average of 9.2%, as MasTec limits exposure to O&G projects. The current reported EBITDA margin is 7.5%, 200 bps lower than its peer group average of 9.3%. Net margin is expected to decline to 0.5% from the 3-year historical average of 2.3%, influenced by higher COGS and suboptimal managerial performance. The current net margin is reported at 0.4%, 90% lower than the peer group average of 4.4% (Figure 29). Debt reduction payments will put downward pressure on CFO margins, shrinking to 6.0% in FY24E from 7.1% in FY23E.

Leverage | Overleveraged balance sheet harms long-term growth

Following an aggressive stretch of multiple expensive acquisitions, MasTec has found itself with an over-leveraged balance sheet compared to its peer group with a net debt leverage ratio of 3.5x and 1.9x, respectively (Figure 30). Elevated leverage and weakened project execution has led to the S&P Global Ratings to revise its outlook from stable to negative on MasTec's BBB- credit rating. Furthermore, a failure to reduce its net debt leverage to 2.5x over the next 12-18 months could lead to S&P lowering its rating, risking MasTec's investment grade. The threat of downgrading has forced MasTec to shift from its strategy of aggressive growth to prioritizing debt reductions with management targeting 2.5x net debt leverage by the end of FY24. The company has already begun to take steps towards this goal with MasTec allocating $213 million (72%) of its CFO of $294 million on decreasing net debt in 3Q23. Consequently, with a heightened percent of CFO allocated to debt reduction payments, MasTec is anticipated to experience a decline in cash available for investing activities to spend on long-term growth. Historically, MasTec has had the capacity to direct 1.4x of its cash flow after financing to expand long-term investments. However, the increase in debt reduction and interest payments is expected to reduce investing activity to only 0.9x over the investment horizon (Figure 31). On an absolute basis, the company is expected to see investing activities drop from $821 million in FY22A to $686 million in FY23E. Challenges in project delivery, shrinking margins, and a revenue slowdown further impact CFO, hindering MasTec's ability to meet the targeted net debt leverage ratio by 4Q24 and limiting opportunities for both organic and inorganic growth.

Alongside its heightened debt load, MasTec is confronted with substantial challenges in terms of debt payment and refinancing risks. The company's current EBIT/interest expense ratio stands at 1.0x, falling short of the peer average of 19.1x. Furthermore, MasTec's debt service coverage ratio sits at 0.2x, below the peer average of 8.1x. Combined, the ratios suggest MasTec does not currently have sufficient funds to cover its interest expenses, underscoring MasTec's financial strain. Notably, MasTec faces the challenge of managing over $1.7 billion in loans maturing by 2026. Constituting 60.0% of its total outstanding debt and a coupon rate of 6.8%, all debt is expected to mature by 2029 (Figure 32). With interest rates anticipated to remain heightened over the next few years and MasTec's risk profile elevated, the company is expected to refinance most of its debt at a higher rate. A downgrade in credit rating would further elevate this risk, as the credit market has experienced a credit crunch with high-yield debt shrinking by 8.0% over the last year. This increased interest expense would place further constraints on MasTec's ability to invest in organic and inorganic growth opportunities.

Profitability | Bottom-line performance takes a turn for the worse

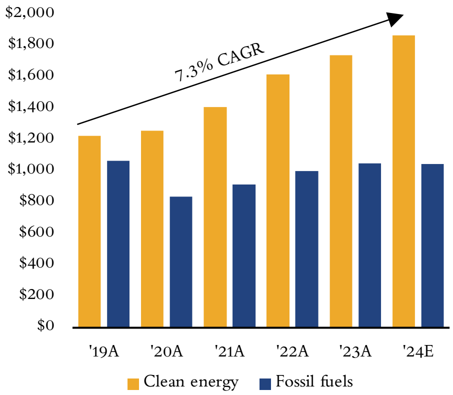
With low revenue growth and elevated costs, the company is expected to see a shift to negative net income, reaching -$63 million in FY23E down from $33 million FY22A. Consequently, EPS is projected to decline to -$0.82 FY23E from $0.45 FY22A. EPS is expected to turn positive in FY24E, growing at a CAGR of 4.1% till FY28E. The DuPont Identity, a measure of return on equity (ROE), is based off of operating efficiency, asset use efficiency, and financial leverage. MasTec's current asset turnover sits at 1.38x, 21.1% below the peer average of 1.75x. MasTec's ROE is expected to struggle due to a drop in profit margins, heightened financial leverage, and low asset turnover. The company's ROE is expected to hit -2.2% FY23E before turning positive in FY24E. MasTec's ROE, ROA, and return on invested capital (ROIC), all fall significantly below its peer group average (Figure 33). Shareholders are poised to be negatively impacted by the company's weakened bottom-line performance.

INVESTMENT RISKS

1. Favorable High-Growth End Markets

SR I: MasTec's end market dynamics see high-growth potential amidst the transition to a low-carbon economy (Figure 35). Through heightened government and private spending across all of MasTec's operating segments, the industry is expected to more than double its historical CAGR

Figure 35: Energy Investment (bn)



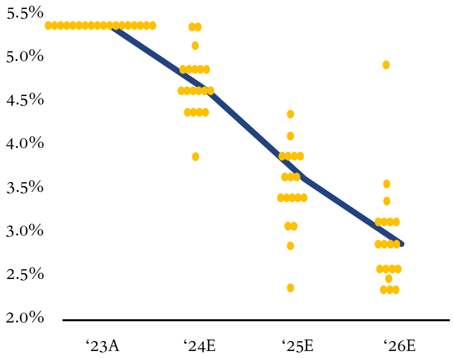
Source: Energy Information Administration

to 6.9% over the next five years. While there has been a delay in operationalizing tax equity, management expects to see the benefits of the legislation to hit its business in 2024. Furthermore, continued public support to combat climate change will result in strong end markets for decades to come, thereby expanding the construction & engineering market.

Valuation Impact: A favorable end market was considered throughout MasTec's DCF scenario analysis. This scenario is reflected in a best-case scenario for MasTec, where revenue growth was increased by 20% off the base case due to heightened spending. By flexing revenue, the blended forecasted value increases $62.64, a 4.0% downside from the current share price.

Mitigation Factor: MasTec's ability to fully capitalize on these favorable end-market dynamics appear limited due to the lack of specialization and operational inefficiencies. The company's primary focus on addressing internal challenges, such as balance sheet health and cost pressures, has resulted in stagnation and risks a further loss in market share to strategically positioned competitors.

Figure 36: FOMC Dot Plot



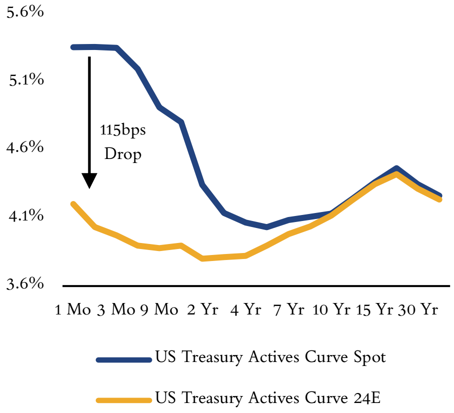
Source: Bloomberg

2. Macro-Economic Tailwinds

SR II: As CPI in the United States cools from 9.3% to 3.4%, the Federal Reserve has signaled the end of rate hikes while reaffirming its commitment to a 2.0% target rate (Figure 36). If the economy were to see continued disinflationary pressures, the Federal Reserve would likely cut interest rates to stem a recessionary environment. The futures now anticipate a 115bps cut by year end of 2024 (Figure 37). Further rate cuts would stimulate top-and-bottom-line growth as MasTec and its clients' business operations are heavily tied to interest rates. Lower interest rates would allow MasTec to reduce interest expense and refinance existing debt, which can help accomplish MasTec's goal of decreasing its leverage ratio to 2.5x. Demand for services will pick up as clients are more able to finance projects.

Valuation Impact: Applying an industry-friendly macro-environment, this scenario reflected a best-case situation for MasTec, with revenue and margins expanding. It was found that in a best-case scenario, the blended forecasted value increases to $76.94, a 17.9% upside from the current share price.

Figure 37: US Treasury Forward Curve



Source: Bloomberg

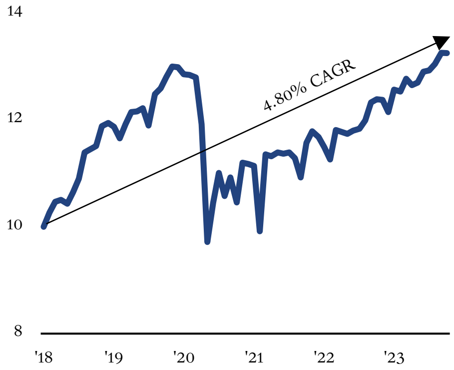
Mitigation Factor: MasTec cannot directly influence the bond market, nor the interest rate benchmark set by the FED. However, MasTec's inability to scale, resulting from low CFO, will minimize the company's opportunity to benefit from an immediate rise in demand. MasTec is expected to struggle to meet its 2.5x leverage ratio requirement, hindering its ability to invest in organic and inorganic growth, which will constrain them from scaling to meet demand.

3. Resurgence in O&G

SR III: The O&G market may rebound in the coming year if energy and climate policies ease or the rate environment improves, boosting industrial demand. Projections as of January 26, 2024, indicate a surge in United States oil drilling 1Q24, with the Permian Basin expecting a 350,000 b/d increase and other regions anticipating a 70,000 b/d uptick throughout the year (Figure 38). Industry leaders foresee a rise in well drilling, with increased oil and natural gas prices driving investment in O&G projects, benefiting MasTec's pipeline business.

Valuation Impact: An O&G market rebound was considered in the sensitivity analysis where revenue was flexed. As O&G accounts for only 15.2% of total revenue, a revenue growth of 10% off the base can be expected. The scenario finds a blended forecasted value of $61.01, a 6.5% downside from the current share price.

Figure 38: US Crude Oil Prod. (mn b/d)



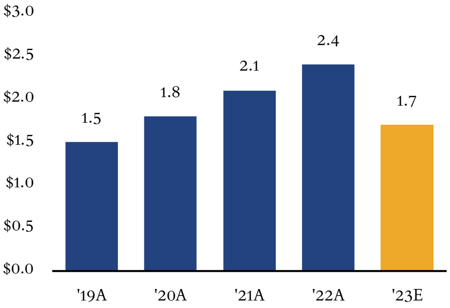
Source: Energy Information Administration

Mitigation Factor: Due to MasTec's diversified approach for its energy infrastructure business, they would not be strongly positioned to take advantage of a rebound in the O&G market. Management has strategically shifted out of O&G due to its volatility, making them struggle to compete if the market rebounded. Furthermore, with limited CFO, the company would not be able to invest back into the space in time to take advantage.

4. Successful Integration of IEA

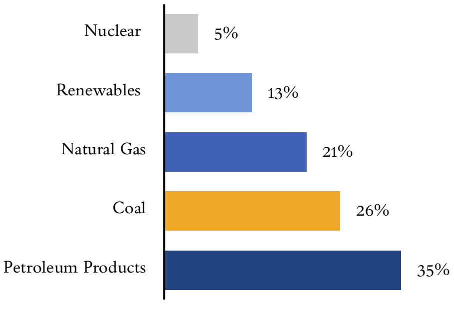
IR I: MasTec has struggled to integrate IEA from the onset of the acquisition. During the 3Q23 earnings call, MasTec revised and guided down IEA's revenue expectations from $2.7 billion to $1.7 billion (Figure 39). In response, MasTec has taken decisive action by overhauling IEA's leadership, substituting the existing team with its own management. Should new management succeed in aligning IEA with MasTec's business model, IEA could be a consequential revenue driver in its CE&I segment (Figure 40).

Figure 39: IEA's Revenue Projection (bn)



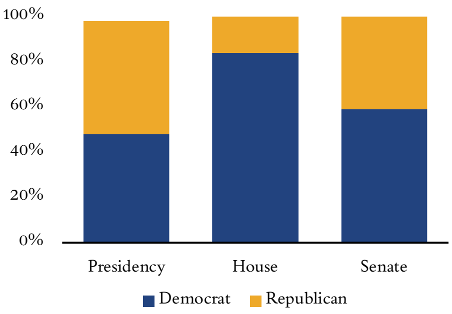
Source: Bloomberg

Figure 40: Energy Consumption '24E



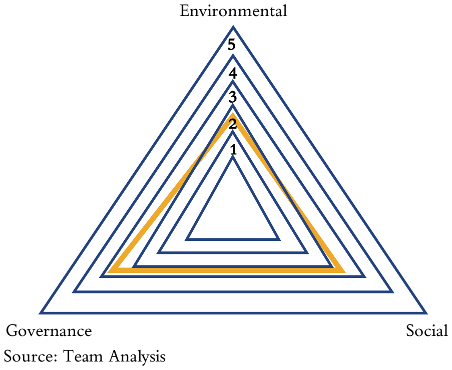
Source: Energy Information Administration

Figure 41: Election Expectations



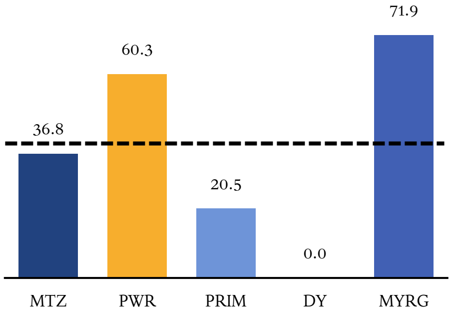
Source: 538 ABC News

Figure 42: ESG Scorecard



Source: Team Analysis

Figure 43: Environmental Score



Source: Bloomberg

Valuation Impact: Heightened performance for the segment was considered through revenue growth rates in the sensitivity analysis where revenue growth was flexed 30.0% from the base. The simulation resulted in a blended forecasted value of $62.69, a 3.9% downside from the current share price.

Mitigation Factor: The renewables industry has shifted away from wind in favor of solar and battery storage as tax incentives get better. IEA's focus on wind, while diversifying revenue streams, is expected to generate low growth over the next decade. Furthermore, the complexities of integrating IEA, including the need for direct intervention from MasTec's senior management, raise concerns about resource allocation. A heavy focus on IEA could lead to insufficient attention to core business areas, hindering MasTec's overall performance.

5. Political Risk with a "Blue-Wave"

SR IV: The outcome of the 2024 general election could have significant implications for the construction and engineering industry, particularly for companies like MasTec. The 2020 election saw Democrats pass ~$2 trillion in funding for infrastructure projects following a "Blue-Wave." Currently, the House is held by Republicans, acting as a roadblock for Democrats to push more infrastructure spending. Should the Democrats regain control, there is potential for legislation that favors further investment in infrastructure. MasTec would directly benefit, with its CE&I services aligning with MasTec's construction and maintenance expertise in solar, wind, and geothermal projects. Modernizing the aging grid, another potential target area, would also benefit MasTec's power delivery segment.

Valuation Impact: Increased government investment and spending on infrastructure was considered through the revenue growth rates in the sensitivity analysis where revenue growth was flexed 30% from the base. The simulation resulted in a blended forecasted value of $62.69, a 3.9% downside from the current share price.

Mitigation Factor: Republicans lead slightly with 44.3% of votes, while 43.2% of votes support Democratic control of the legislature (Figure 41). If Democrats take control, budgetary constraints may limit the willingness for moderates to vote for sweeping legislation. In January 2024, a bipartisan agreement was revealed, outlining budget cuts across all non-military expenditures. Republicans have expressed a desire for additional cuts in infrastructure spending, potentially causing further erosion of funding allocated in the IIJA and IRA. The balance between Democrat control and Republican influence is expected to moderate further infrastructure spending.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

MasTec neglects data reporting on ESG initiatives and has not released updated information since 2021. MasTec was assessed amongst established competitors across environmental, social, and governance, and scored on a one through ten ranking based on industry specific ESG components relative to the peer group. With scores of 2.6, 3.2, and 3.6 in environmental, social, and governance, respectively, MasTec falls significantly below the peer group average of 5.0 (Figure 42).

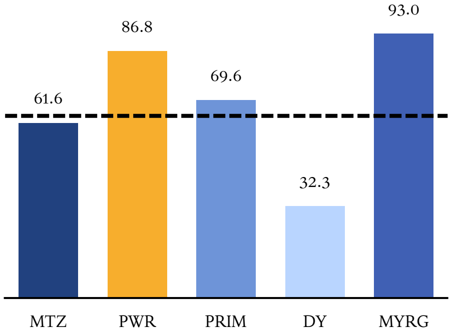
Environmental Sustainability

MasTec contributes to sustainability through its infrastructure services as a clean energy contractor. While the company plays a crucial role in supporting its clients' green initiatives, MasTec fails to move the needle on its own sustainability efforts (Figure 43). Operating in an industry that accounts for approximately 70% of global greenhouse gas emissions, MasTec's absence of both a net-zero emissions target and a comprehensive report outlining emissions reduction initiatives raises concerns of negligence. In contrast to its competitors which actively address carbon emissions and provide guidance on reducing its carbon footprint, MasTec's own sustainability efforts appear lackluster and undefined.

Social Responsibility

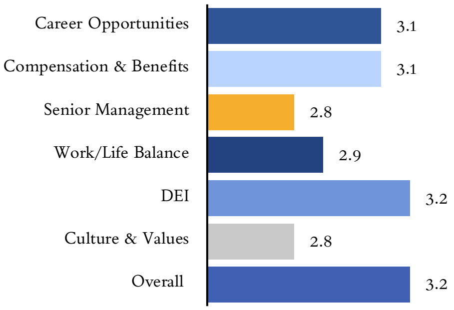
MasTec's social initiatives fall short of expectations with outdated data disclosures and social programs (Figure 44). In MasTec's 2021 ESG report, Diversity, Equity, and Inclusion (DEI) figures showed a 1.2% gain of minorities in its workforce between 2015 - 2020. Within this same period, minorities in executive and management positions increased from 23.6% to 32.6% and women in similar roles increased from 14.4% to 15.3%. The company has released updated diversity figures for its workforce and management for years 2021 and 2022, however women and minorities are not broken down. Combined, women and minorities now represent 45% of MasTec's workforce as well as its management teams, a decrease of 8.2% and 6.3% YoY in its

Figure 44: Social Score



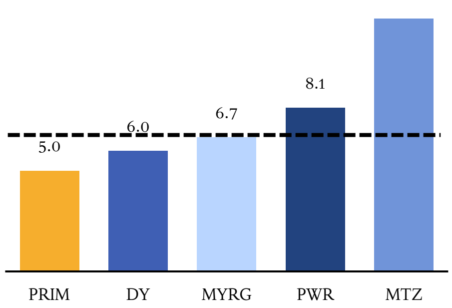
Source: Bloomberg

Figure 45: Workplace Sentiment



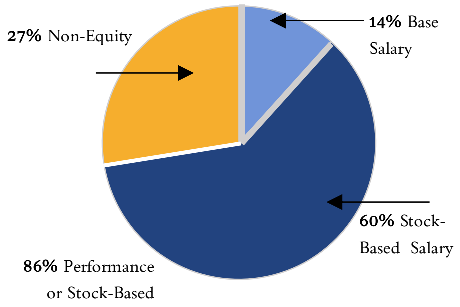
Source: Glassdoor

Figure 46: Peer Average BOD



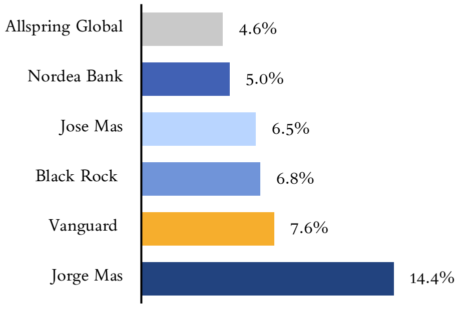
Source: Bloomberg

Figure 47: CEO Compensation



Source: Bloomberg

Figure 48: Top MTZ Shareholders



Source: Bloomberg

respective areas. Additionally, MasTec does not publish a gender pay gap breakout in its public filings nor in its company's official records.

MasTec's management has been ineffective in nurturing employee relationships, as reflected in its Glassdoor rating of 3.2 out of 5.0. The score is based on qualifications such as work/life balance (2.9), diversity & inclusion (3.2), and compensation & benefits (3.1) (Figure 45). Most notably, MasTec scores a 2.8 in workplace culture and values, seeing a ~10% drop YoY. Consequently, less than 50% of employees would recommend working at MasTec to a friend. Ultimately, management's lack of responsibility to take care of its workforce has led to growing employee dissatisfaction, harming retention rates in the long-term.

Although MasTec prides itself on providing hurricane relief, it pales in comparison to its peers and is only pursued with financial consideration. After Hurricane Ida, restoration crews arranged for food delivery and supplies to hard-hit areas after the storm caused $75 billion in damages. MTZ donated $100,000 to the campaign, whereas other companies such as Florida-based Duke Energy donated $1,000,000 in materials for disaster relief. During high-risk periods, MasTec maintains electrical lines and provides grid hardening, focusing on power and telecommunications. Nevertheless, these initiatives generate a false reality of MasTec's social efforts, given its surface-level reporting and misleading altruism.

Corporate Governance

Board of Directors: MasTec's board of directors is made up of eight individuals, six of whom are considered independent under NYSE and SEC rules and regulations. Directors conduct meetings through sub-committees, which fall under the categories of Executive, Audit, Compensation, Finance & M&A, and Nominating, Sustainability & Corporate Governance. The board is elected across three staggered classes, where directors hold office for three-year terms. However, through the use of staggered voting, the influence of minority shareholders is limited, entrenching management and reducing the board's accountability. Currently, the board of directors at MasTec have an average tenure of 12.6 years, which is significantly higher when compared to its peers' average tenure of 6.6 years (Figure 46). MasTec's high average tenure negatively impacts shareholders due to a lack of diverse perspectives, hindering innovation and adaptability in a business environment shifting toward greater ESG focus.

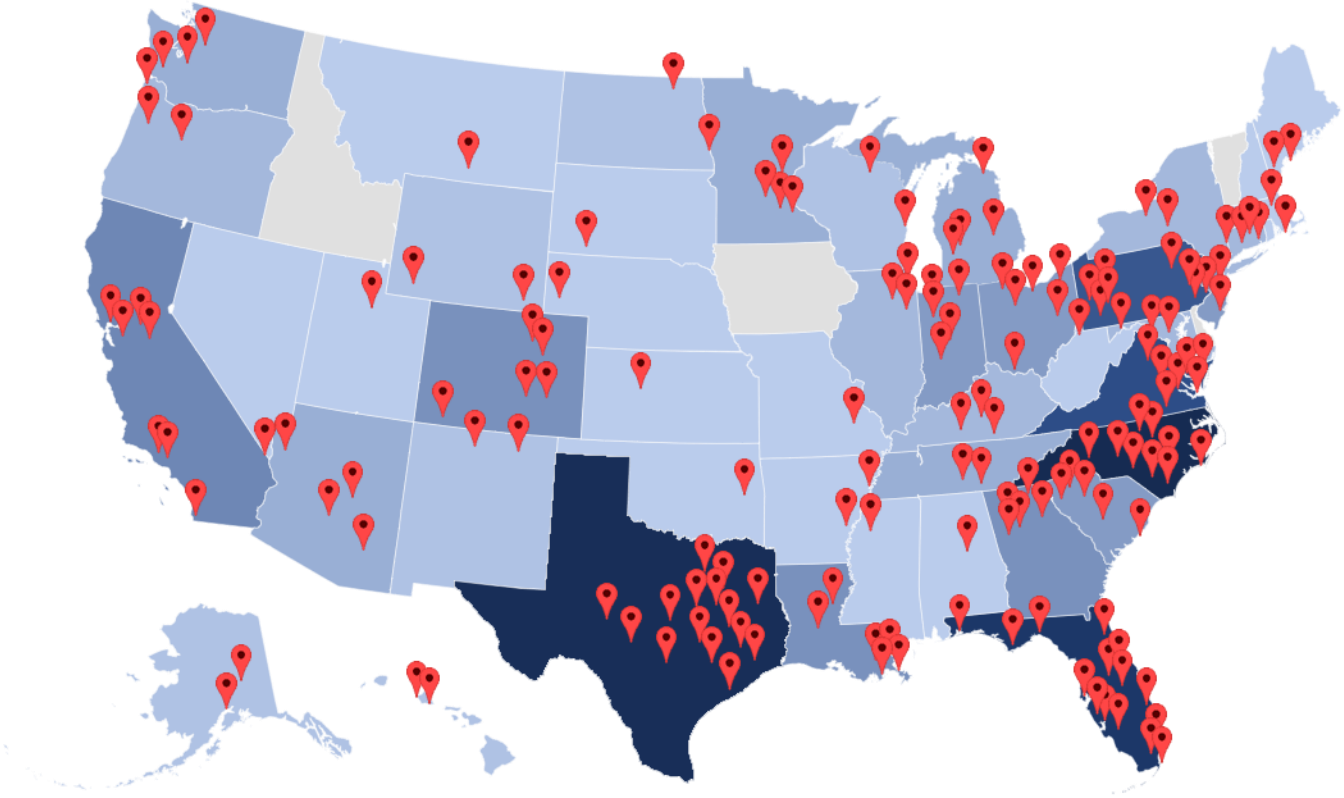
Executive Committee: MasTec's top executives, brothers Jorge Mas (Chairman) and Jose. R. Mas (CEO), are also deeply involved in professional soccer clubs. Besides managing MasTec, Jose Mas co-owns Inter Miami CF, with Jorge Mas serving as the managing owner and CEO. Additionally, Jose Mas is the president of the Spanish soccer club Real Zaragoza, which the brothers recently acquired a 51% stake in. This adds to their existing ownership in Botafogo, a prominent Brazilian first division soccer club. The Mas brothers' involvement in soccer has further expanded with Inter Miami's recent signing of Lionel Messi. These high-priority commitments raise concerns that MasTec is not receiving the full attention it needs to operate at high levels.

Executive Compensation: MasTec's executive compensation is split between a base salary and an annual performance bonus, which is partially paid in restricted stock and cash (Figure 47). However, in comparison to its competitors—Quanta, Primoris, and MYR Group—MasTec does not offer executive compensation linked to ESG. This is indicative of MasTec's lack of emphasis on ESG relative to its peers.

Shareholders: MTZ follows a single class capital structure that is grounded on a one share, one vote principle. Insiders hold 22% of shares outstanding, whereas institutional investors own 78%, including asset managers, investment banks, and financial advisors (Figure 48). Notable investors include Vanguard (7.6%), BlackRock (6.8%), and Nordea Bank (5.0%). Currently, Jorge Mas and Jose Mas are the largest individual shareholders, owning 14.4% and 6.5% respectively. These holdings place the Mas' in a position to influence shareholder votes, preventing or delaying any takeover attempts that may be in the shareholder's best interest.

Appendix 1: Contents & Overview

Appendix 2: Geographical Representation



Appendix 3: Environmental, Social and Governance

ESG Scorecard

Category	Key Issues	Rank	Criteria	Overall
Environmental	Green House Gas Emissions	1.60	GHG as a % of Revenue	2.58
	Ecological Impact	3.55	Ecological Impact Ecosystem Protection Climate Change Policy	
Social	Diversity, Equity, Inclusion	4.10	% of Women Employees % of Minority Employees Social Rank	3.20
	Local Outreach	3.50	Natural Disaster Relief Employee Education Stipends Local Foundation Support	
	Employee Satisfaction	2.00	Work Life Balance Compensation & Benefits Diversity & Inclusion	
Governance	Board & Executive Diversity	2.00	Gender Diversity Age Diversity	3.60
	Executive Compensation	3.95	Pay Relative to Median Employees Executive Compensation as a % of Revenue	
	Business Ethics	3.25	Ethics Policy Ethics Compliance Whistle Blower Policy Anti-Bribery Policy	
Overall				3.13

1 = Laggard 5 = Average 10 = Leading

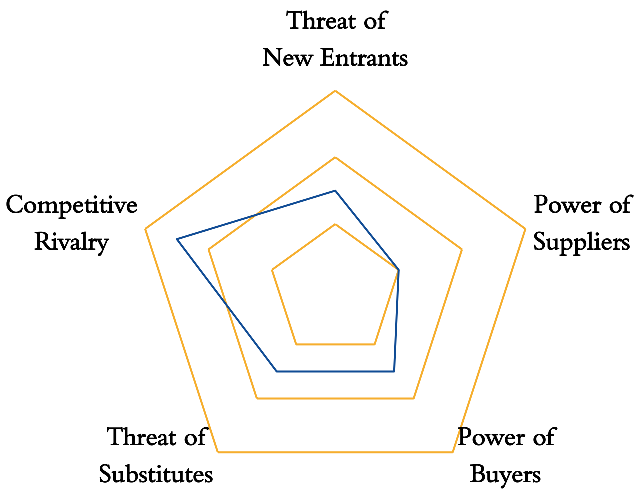
Bloomberg Percentile Scores

Peer Group	Overall ESG Score	Environmental	Social	Goverance
MasTec	55.1	36.8	61.6	87.9
Quanta	86.9	60.3	86.8	98.8
Primoris	54.3	20.5	69.6	98.1
Dycom	28.3	0.0	32.3	95.8
MYR Group	92.8	71.9	93.0	98.6
Median Score	59.29	37.35	69.13	96.97

Board of Directors

Name	Roles	Tenure	Committee	Shares Owned
Jorge Mas	Chairman & Co-Founder	1994	Chair of Executive	11,361,581
Jose R. Mas	CEO	2001	President	5,139,934
Robert Campbell	Independent Director	2016	Audit, Finance and M&A	54,650
Ernest N. Csiszar	Independent Director	2005	Audit, Compensation	28,685
Robert J. Dwyer	Lead Independent Director	2004	Finance and M&A, Audit, Compensation, NS&CG, Executive	18,626
Julia L. Johnson	Independent Director	2002	NS&CG, Executive, Finance and M&A, Audit	70,474
Javier Palomarez	Independent Director	2015	NS&CG, Compensation	13,090
Ava L. Parker	Independent Director	2022	NS&CG	2,579

Appendix 4: Porter's Analysis



Power of Suppliers – LOW (2 out of 5)

- MasTec has a diverse supplier base spread across multiple industries, reducing reliance on any single supplier. However, some specialized materials and equipment may have limited suppliers, giving them some minor bargaining power.
- Long term supplier relationships have historically been strong for MasTec which has positioned them well when discussing contracts and prices.
- Key factors to consider: Government Infrastructure budgets, foreign trade policy, commodity prices, competition among suppliers.

Threat of New Entrants – MODERATE (3 out of 5)

- Barriers to entry in the construction and engineering industry are moderate, requiring specialized equipment, skilled labor, and regulatory. approvals. However, MasTec's established footprint and brand recognition could deter new entrants.
- Forecasted growth in Clean Energy & Infrastructure is very strong which is likely to entice additional firms to enter the space.
- Key factors to consider: Regulatory environment, skilled labor availability, emerging renewable energy brands, customer sentiment.

Power of Buyers – MODERATE (3 out of 5)

- Large clients like utilities and government agencies have some bargaining power due to their project size and influence. Highly competitive rivalry further increases bargaining power as MasTec and its competitors fight each other to be the lowest bidder for major projects.
- Key factors to consider: Client concentration, switching costs for clients, price sensitivity, project size and complexity.

Competitive Rivalry – HIGH (5 out of 5)

- The infrastructure construction industry is fragmented with numerous players competing for projects. MasTec faces both large national companies and smaller regional players.
- As the Clean Energy & Infrastructure market continues to heat up, MasTec will be forced to take on stiff competition in an increasingly lucrative field.
- Key factors to consider: Market share distribution, differentiation strategies, pricing pressure, innovation, project bidding dynamics.

Threat of Substitutes – MODERATE (3 out of 5)

- While alternative construction methods and materials exist, they may not be suitable for all projects. MasTec's diverse service portfolio and ability to adapt to changing technologies provide some protection against immediate substitution threats.
- Key factors to consider: Availability and cost of alternative technologies, project specifications and complexity, environmental regulations, and client preferences, evolving funding models and procurement trends, competitor product offerings.

Appendix 5: Macroeconomic Forecasting

	Forecasting Method	FY2020 *12/31/2020*	FY2021 *12/31/2021*	FY2022 *12/31/2022*	FY2023E *12/31/2023*	FY2024E *12/31/2024*	FY2025E *12/31/2025*	FY2026E *12/31/2026*	FY2027E *12/31/2027*	FY2028E *12/31/2028*
CPI	Linear Regression	2.6%	1.6%	4.3%	6.5%	3.0%	2.9%	3.0%	3.2%	3.5%
Overnight Lending Rate	Holt-Winters	0.4%	0.0%	0.0%	4.5%	5.0%	4.3%	4.0%	3.7%	3.5%
GDP	Holt-Winters	-2.3%	2.3%	2.4%	2.7%	1.9%	2.5%	3.5%	3.0%	1.8%

Consumer Price Index: Stepwise multiple linear regression practices were followed to calculate CPI (R-Square: 88%). The process concluded with three significant predictors: Wage Growth, Labor Force Participation Rate, and Consumer Sentiment. These indicators were forecasted utilizing the Holt-Winters model and were then inserted into the regression model.

Overnight Lending Rate: The Holt-Winters model was used to forecast the US Overnight Lending Rate (Mean-Square-Error: .21). In 2024, rates are forecasted to drop 25-50 basis points. From 2025 to 2028, rates are forecasted to fall steadily although not to the levels seen since the 2010s.

Gross Domestic Product: GDP was forecasted using a Holt-Winters model (Mean-Square-Error: .13). The model predicts very high growth in the coming year with it tapering off but remaining elevated through 2028.

Appendix 6: Revenue Forecasting

	Forecasting Method	FY2020 *12/31/2020*	FY2021 *12/31/2021*	FY2022 *12/31/2022*	FY2023E *12/31/2023*	FY2024E *12/31/2024*	FY2025E *12/31/2025*	FY2026E *12/31/2026*	FY2027E *12/31/2027*	FY2028E *12/31/2028*
Clean Energy & Infrastructure	**Linear Regression**	**$1,005**	**$1,865**	**$2,619**	**$3,938**	**$4,855**	**$5,937**	**$6,914**	**$7,941**	**$8,947**
Federal Funds Rate (Used for all Indicators)	*Holt-Winters*	*0.1%*	*0.1%*	*0.1%*	*4.5%*	*5.0%*	*4.3%*	*4.0%*	*3.7%*	*3.5%*
Backlog	Moving Average	$1,066	$1,551	$2,187	$3,314	$2,549	$2,790	$2,669	$2,721	$2,702
Assets	Holt-Winters	$591	$757	$1,535	$2,796	$3,967	$5,043	$6,119	$7,044	$8,271
Wind Power Capacity (Kilowatts)	Holt-Winters	208	227	247	256	273	289	304	319	335
Solar Power Capacity (Kilowatts)	Holt-Winters	193	235	294	328	383	425	468	505	553
Communication	**Linear Regression**	**$2,512**	**$2,551**	**$3,234**	**$3,373**	**$3,476**	**$3,514**	**$3,567**	**$3,624**	**$3,685**
Backlog	Holt-Winters	$3,890	$4,241	$5,070	$5,440	$5,474	$5,623	$5,771	$5,897	$6,067
Assets	Holt-Winters	$1,954	$1,964	$2,299	$2,483	$2,632	$2,803	$2,974	$3,116	$3,316
Change in Communications Capacity	Holt-Winters	17.5%	-12.5%	50.0%	23.3%	14.5%	1.3%	-12.0%	-29.8%	-38.4%
Oil & Gas	**Linear Regression**	**$1,593**	**$2,541**	**$1,220**	**$1,798**	**$2,119**	**$2,184**	**$2,236**	**$2,285**	**$2,331**
Backlog	Holt-Winters	$2,539	$1,584	$1,523	$1,912	$2,145	$2,328	$2,511	$2,660	$2,877
Assets	Holt-Winters	$1,730	$1,586	$1,537	$1,722	$1,987	$2,061	$2,134	$2,191	$2,281
Oil & Gas Capacity	Holt-Winters	$13,081	$11,967	$12,001	$12,231	$12,166	$12,108	$12,051	$11,974	$11,937
Power Delivery	**Linear Regression**	**$1,225**	**$1,017**	**$2,725**	**$2,728**	**$2,623**	**$2,750**	**$2,889**	**$3,030**	**$3,174**
Backlog	Holt-Winters	$522	$1,507	$2,685	$2,608	$2,677	$2,919	$3,161	$3,361	$3,646
Assets	Holt-Winters	$483	$959	$2,032	$1,879	$1,915	$1,943	$1,971	$1,979	$2,027
Power Delivery Capacity	Holt-Winters	$30	$30	$28	$28	$28	$28	$27	$27	$26

CE&I: Mastec's CE&I revenue was calculated with a multiple linear regression containing the following predictors: backlog, 10 period moving average, assets, and wind & solar power capacities. Each independent variable was forecasted using Holt-Winters. The average absolute values of residuals were 660.89, 301.41, 2.13, and 257.42 respectively. As Mastec's fastest growing segment, assets, wind, and solar capacity are expected to grow substantially. Solar is expected to have a notably higher CAGR of 16.7% compared to wind at 5.5%.

O&G: The O&G revenue for MasTec was calculated using multiple linear regression containing the following predictors: backlog, assets, and American oil & gas capacity. Each independent variable was forecasted using Holt-Winters. The average absolute values of residuals were 477.77, 109.58, 797.14. As one of Mastec's legacy segments, forecasted values remained stagnant.

Communication: MasTec's communication revenue was calculated with a multiple linear regression containing the following predictors: backlog, assets, and American communications capacity. Each independent variable was forecasted using Holt-Winters. The average absolute values of residuals for the Holt-Winters forecasts were 216.71, 94.51, and 1.82 respectively. Backlog and Assets are both forecasted to grow marginally over the next five years at CAGRs of 1.8% and 6% while communications capacity is expected to be stagnant.

Power Delivery: Mastec's power delivery revenue was forecasted with a multiple linear regression containing the following predictors: backlog, assets, and power delivery capacity. The average absolute values of residuals were 287.75, 266.97, and 1.41. Capacity and assets are forecasted to remain stagnant while backlog is poised to see modest growth at a CAGR of 6.9%.

Appendix 7: Forecasted Valuation Ratios

	FY 2020	FY 2021	FY 2022	FY2023 E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
	12/31/2020	*12/31/2021*	*12/31/2022*	*12/31/2023*	*12/31/2024*	*12/31/2025*	*12/31/2026*	*12/31/2027*	*12/31/2028*
Per Share Ratios									
Shares Outstanding	74.2	76.429	78.7	78.8	80.4	82.0	83.7	85.3	87.0
Basic EPS ($)	4.4	4.3	0.4	-0.8	1.0	1.0	1.0	1.1	1.1
CF/Share	4.7	-0.8	0.1	1.0	-0.6	1.0	1.2	2.0	1.7
EBITDA/Share	10.6	11.9	8.4	9.1	11.5	12.3	13.0	13.8	14.6
Revenue/Share	85.2	104.0	124.3	149.8	162.6	175.4	186.6	197.8	208.4
Profitability Ratios									
Gross Margin %	16.6%	14.4%	12.2%	11.3%	11.9%	11.9%	11.9%	11.9%	11.9%
Operating Margin %	6.6%	4.7%	1.8%	0.8%	1.6%	1.6%	1.6%	1.6%	1.6%
EBITDA Margin %	12.4%	11.4%	6.8%	6.1%	7.1%	7.0%	7.0%	7.0%	7.0%
Pretax Margin %	6.6%	5.0%	1.0%	-0.4%	1.2%	1.1%	1.1%	1.1%	1.1%
FCF Margin %	-	3.2%	0.2%	7.1%	6.0%	6.9%	5.8%	5.7%	5.4%
Net Margin %	5.1%	4.1%	0.3%	-0.5%	0.6%	0.6%	0.5%	0.6%	0.6%
Return on Assets	6.3%	5.3%	0.4%	-0.6%	0.7%	0.7%	0.7%	0.7%	0.7%
Return on Equity	24.7%	14.5%	1.3%	-2.2%	2.4%	2.3%	2.1%	2.3%	2.2%
Return on Invest Capital	8.4%	6.4%	1.8%	1.0%	1.8%	1.8%	1.8%	1.8%	1.8%
Solvency Ratios									
Debt/Assets	24.9%	28.3%	34.7%	28.8%	26.3%	26.1%	26.3%	27.0%	27.8%
Debt/Equity	65.0%	79.2%	117.6%	95.2%	86.1%	85.2%	86.3%	89.1%	92.4%
Debt/Total Capital	39.4%	44.2%	54.0%	48.8%	46.3%	46.0%	46.3%	47.1%	48.0%
Debt/Revenue	20.6%	25.3%	33.0%	25.1%	22.0%	21.8%	22.0%	22.8%	23.8%
Debt/EBITDA	1.1	1.8	4.3	3.5	2.7	2.6	2.6	2.6	2.7
Liquidity Ratios									
Current Ratio	1.7	1.6	1.5	1.4	1.3	1.3	1.3	1.4	1.4
Quick Ratio	0.9	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.7
Cash Ratio	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2
OCF Ratio	0.7	0.4	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Cash Conversion Ratio	15.5	18	16.5	11.5	8.8	8.2	8.3	8.3	8.3
Performance Ratios									
CF/Revenue	14.8%	10.0%	3.6%	8.5%	7.1%	7.9%	7.1%	7.3%	7.1%
Cash Return on Assets	17.9%	12.8%	4.3%	10.2%	8.8%	10.0%	8.8%	9.0%	8.6%
Cash Return on Equity	46.7%	10.3%	7.5%	3.0%	7.7%	6.6%	7.5%	6.6%	6.8%
Cash Flows to Net Income	2.9	2.4	10.6	-15.8	11.9	14.2	13.5	13.1	12.9

Appendix 8: Balance Sheet

In Millions of USD except Per Share	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023E**	**FY 2024E**	**FY 2025E**	**FY 2026E**	**FY 2027E**	**FY 2028E**
12 Months Ending	*12/31/2020*	*12/31/2021*	*12/31/2022*	*12/30/2023*	*12/31/2024*	*12/31/2025*	*12/31/2026*	*12/31/2027*	*12/31/2028*
Total Assets									
+ Cash, Cash Equivalents & STI	423	361	371	453	408	490	587	754	901
+ Accounts Receivables	784	1,019	1,400	1,610	1,738	1,913	2,075	2,245	2,412
+ Unbilled Revenues	970	1,228	1,730	1,989	2,149	2,364	2,565	2,774	2,981
+ Inventories	90	93	118	136	147	161	175	189	203
+ Other ST Assets	92	173	241	277	303	333	362	391	420
+ Prepaid Expenses	—	—	122	141	152	167	181	196	211
+ Misc ST Assets	92	173	119	136	151	166	180	195	210
Total Current Assets	**2,359**	**2,874**	**3,859**	**4,464**	**4,745**	**5,261**	**5,763**	**6,353**	**6,917**
+ Property, Plant & Equip, Net	1,159	1,696	2,034	2,196	2,345	2,497	2,687	2,946	3,247
+ Property, Plant & Equip	2,346	3,101	3,591	3,878	4,111	4,440	4,795	5,227	5,697
- Accumulated Depreciation	1,187	1,404	1,557	1,682	1,766	1,943	2,108	2,280	2,450
+ LT Investments	220	267	306	330	366	403	437	472	508
+ Other LT Assets	1,490	2,284	3,094	3,314	3,483	3,833	4,160	4,502	4,842
+ Total Intangible Assets	1,427	2,191	2,991	3,201	3,361	3,698	4,012	4,339	4,662
+ Goodwill	1,243	1,521	2,045	2,188	2,298	2,528	2,743	2,967	3,187
+ Other Intangible Assets	184	670	946	1,013	1,063	1,170	1,269	1,373	1,475
+ Misc LT Assets	63	93	103	113	123	135	148	163	179
Total Noncurrent Assets	**2,869**	**4,247**	**5,434**	**5,841**	**6,194**	**6,732**	**7,284**	**7,921**	**8,596**
Total Assets	**5,228**	**7,121**	**9,293**	**10,305**	**10,939**	**11,993**	**13,046**	**14,274**	**15,513**
Liabilities & Shareholders' Equity									
+ Payables & Accruals	894	1,096	1,658	2,155	2,386	2,625	2,847	3,080	3,309
+ Accounts Payable	571	663	1,110	1,443	1,597	1,757	1,906	2,062	2,216
+ Other Payables & Accruals	323	433	548	712	788	867	941	1,018	1,094
+ ST Debt	218	233	268	324	359	395	428	463	498
+ ST Lease Liabilities	205	231	255	308	341	375	407	440	472
+ Current Portion of LT Debt	13	2	14	17	18	20	22	24	25
+ Other ST Liabilities	303	455	570	757	871	958	1,039	1,124	1,208
+ Deferred Revenue	228	314	406	528	607	668	725	784	843
+ Misc ST Liabilities	75	141	164	229	263	290	314	340	366
Total Current Liabilities	**1,415**	**1,785**	**2,496**	**3,236**	**3,615**	**3,978**	**4,315**	**4,668**	**5,015**
+ LT Debt	1,274	2,053	3,246	2,978	2,896	3,149	3,456	3,877	4,332
+ LT Borrowings	1,002	1,719	2,821	2,483	2,348	2,546	2,802	3,170	3,572
+ LT Lease Liabilities	272	334	425	495	548	603	654	707	760
+ Other LT Liabilities	533	740	810	978	1,084	1,191	1,292	1,398	1,502
+ Deferred Tax Liabilities	303	450	571	690	764	841	912	986	1,060
+ Misc LT Liabilities	230	290	238	288	319	351	380	412	442
Total Noncurrent Liabilities	**1,807**	**2,793**	**4,056**	**3,956**	**3,979**	**4,340**	**4,748**	**5,275**	**5,834**
Total Liabilities	**3,222**	**4,578**	**6,552**	**7,193**	**7,595**	**8,318**	**9,064**	**9,943**	**10,849**
+ Share Capital & APIC	847	1,043	1,256	1,714	1,897	2,181	2,442	2,735	3,008
+ Common Stock	9	10	10	12	13	15	16	17	18
+ Additional Paid in Capital	837	1,034	1,247	1,702	1,884	2,167	2,427	2,718	2,990
- Treasury Stock	587	587	664	697	732	769	807	847	890
+ Retained Earnings	1,834	2,162	2,196	2,132	2,211	2,291	2,373	2,466	2,566
+ Other Equity	(91)	(79)	(51)	(40)	(36)	(32)	(30)	(27)	(25)
Equity Before Minority Interest	**2,002**	**2,540**	**2,737**	**3,109**	**3,340**	**3,671**	**3,978**	**4,327**	**4,659**
+ Minority/Non Controlling Interest	4	4	4	4	4	4	4	4	5
Total Equity	**2,006**	**2,544**	**2,741**	**3,113**	**3,344**	**3,675**	**3,983**	**4,331**	**4,664**
Total Liabilities & Equity	**5,228**	**7,121**	**9,293**	**10,305**	**10,939**	**11,993**	**13,046**	**14,274**	**15,513**

Appendix 9: Income Statement

In Millions of USD except Per Share	FY 2020	FY 2021	FY 2022	FY2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
12 Months Ending	*12/31/2020*	*12/31/2021*	*12/31/2022*	*12/31/2023*	*12/31/2024*	*12/31/2025*	*12/31/2026*	*12/31/2027*	*12/31/2028*
Clean Energy & Infrastructure	1,005	1,865	2,619	3,938	4,855	5,937	6,914	7,941	8,947
Communications	2,512	2,551	3,234	3,373	3,476	3,514	3,567	3,624	3,685
Power Delivery	1,225	1,017	2,725	2,728	2,623	2,750	2,889	3,030	3,174
Oil & Gas	1,593	2,541	1,220	1,798	2,119	2,184	2,236	2,285	2,331
Revenue	**6,321**	**7,952**	**9,778**	**11,811**	**13,074**	**14,385**	**15,606**	**16,880**	**18,137**
- Cost of Revenue	5,271	6,806	8,586	10,471	11,523	12,679	13,754	14,878	15,986
Gross Profit	**1,050**	**1,146**	**1,192**	**1,339**	**1,551**	**1,706**	**1,851**	**2,002**	**2,152**
- Operating Expenses	631	776	1,015	1,250	1,340	1,475	1,600	1,731	1,859
+ Selling, General & Admin	319	318	559	681	678	746	809	875	941
+ Depreciation & Amortization	298	423	507	610	667	734	797	862	926
+ Other Operating Expense	14	36	(52)	(41)	(5)	(6)	(6)	(7)	(7)
Operating Income (Loss)	**419**	**370**	**177**	**89**	**211**	**232**	**251**	**272**	**292**
- Non-Operating (Income) Loss	2	(25)	82	138	60	75	84	85	93
+ Interest Expense, Net	60	53	112	210	148	163	176	191	205
+ Interest Expense	60	53	112	210	148	163	176	191	205
+ (Income) Loss from Affiliates	(30)	(34)	(29)	(35)	(46)	(48)	(51)	(56)	(60)
+ Other Non-Op (Income) Loss	(27)	(44)	(2)	(37)	(42)	(40)	(42)	(50)	(51)
Pretax Income (Loss), Adjusted	**417**	**395**	**95**	**(49)**	**151**	**157**	**168**	**187**	**199**
- Abnormal Losses (Gains)	(8)	(36)	52	51	43	46	55	58	61
+ Merger/Acquisition Expense	—	4	74	81	85	94	101	110	118
+ Disposal of Assets	(14)	(36)	(22)	(31)	(42)	(48)	(46)	(52)	(57)
Pretax Income (Loss), GAAP	**425**	**430**	**43**	**(99)**	**108**	**111**	**112**	**129**	**137**
- Income Tax Expense (Benefit)	102	99	9	(39)	28	29	29	33	35
+ Deferred Income Tax	7	52	10	(77)	11	5	(23)	(9)	(8)
Income (Loss) from Cont Ops	**323**	**331**	**34**	**(61)**	**80**	**82**	**83**	**96**	**102**
Income (Loss) Incl. MI	**323**	**331**	**34**	**(61)**	**80**	**82**	**83**	**96**	**102**
- Minority Interest	(0)	2	1	3	1	2	2	2	2
Net Income, GAAP	**323**	**329**	**33**	**(63)**	**78**	**80**	**82**	**94**	**100**

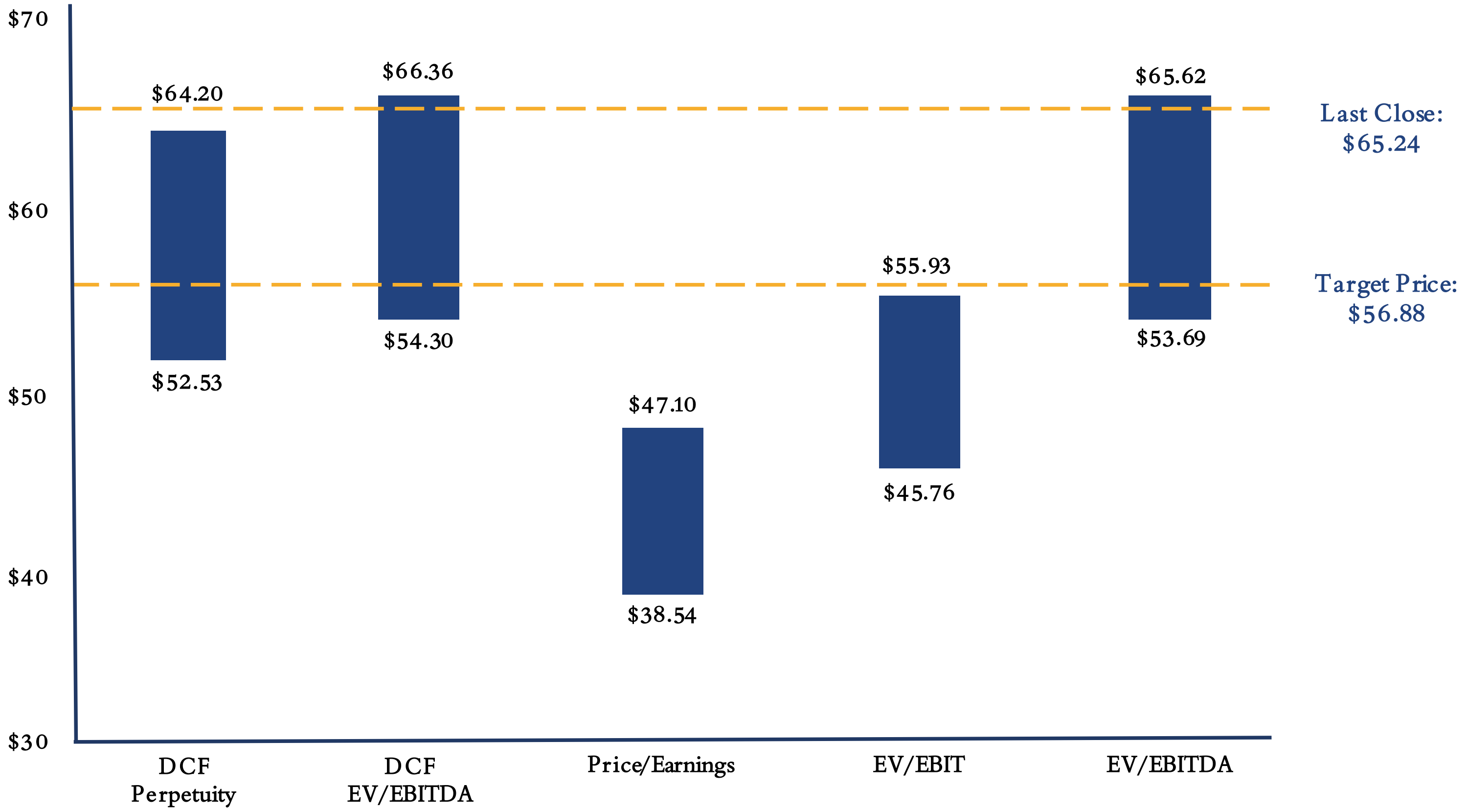
Appendix 10: Statement of Cashflows – Operating

In Millions of USD except Per Share	FY 2020	FY 2021	FY 2022	FY2023 E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
12 Months Ending	*12/31/2020*	*12/31/2021*	*12/31/2022*	*12/31/2023*	*12/31/2024*	*12/31/2025*	*12/31/2026*	*12/31/2027*	*12/31/2028*
Cash from Operating Activities									
+ Net Income	323	329	33	(63)	78	80	82	94	100
+ Depreciation & Amortization	298	423	507	601	610	667	734	797	862
+ Non-Cash Items	33	(73)	(22)	(41)	50	46	21	37	41
+ Stock-Based Compensation	22	25	27	24	25	26	27	27	28
+ Deferred Income Taxes	7	52	10	(77)	11	5	(23)	(9)	(8)
+ Other Non-Cash Adj	4	(150)	(59)	12	14	16	17	19	20
+ Chg in Non-Cash Work Cap	284	115	(166)	501	195	349	266	299	285
+ (Inc) Dec in Accts Receiv	87	149	6	(42)	(210)	(129)	(174)	(162)	(170)
+ (Inc) Dec in Inventories	18	10	(21)	31	(18)	(11)	(15)	(14)	(14)
+ Inc (Dec) in Other	179	(45)	(152)	512	423	489	455	475	469
Cash from Operating Activities	**937**	**793**	**352**	**998**	**932**	**1,143**	**1,103**	**1,226**	**1,287**

Appendix 11: Statement of Cashflows – Investing & Financing

In Millions of USD except Per Share 12 Months Ending	FY 2020 *12/31/2020*	FY 2021 *12/31/2021*	FY 2022 *12/31/2022*	FY2023 E *12/31/2023*	FY 2024E *12/31/2024*	FY 2025E *12/31/2025*	FY 2026E *12/31/2026*	FY 2027E *12/31/2027*	FY 2028E *12/31/2028*
Cash from Investing Activities									
+ Change in Fixed & Intang	(177)	(105)	(182)	(94)	(113)	(74)	(69)	(101)	(163)
+ Disp in Fixed & Intang	37	65	81	56	68	75	82	89	97
+ Acq of Fixed & Intang	(214)	(170)	(263)	(150)	(181)	(149)	(152)	(190)	(259)
+ Net Cash From Acq & Div	(25)	(1,245)	(636)	(591)	(654)	(720)	(781)	(845)	(908)
+ Other Investing Activities	(15)	(8)	(4)	(1)	(7)	(5)	(4)	(4)	(5)
Cash from Investing Activities	**(217)**	**(1,357)**	**(821)**	**(686)**	**(774)**	**(799)**	**(855)**	**(950)**	**(1,076)**
Cash from Financing Activities									
+ Cash From (Repayment) Debt	438	541	3,884	3,033	2,988	2,943	3,031	3,122	3,216
+ Cash (Repurchase) of Equity	(114)	-	(85)	(110)	(113)	(115)	(117)	(119)	(122)
+ Increase in Capital Stock	6	-	-	-	-	-	-	-	-
+ Decrease in Capital Stock	(120)	-	(85)	(110)	(113)	(115)	(117)	(119)	(122)
+ Other Financing Activities	(694)	(39)	(3,317)	(3,153)	(3,077)	(3,090)	(3,065)	(3,111)	(3,158)
Cash from Financing Activities	**(370)**	**502**	**481**	**(230)**	**(202)**	**(262)**	**(151)**	**(108)**	**(64)**
Effect of Foreign Exchange Rates	1	(0)	(2)	0	(0)	(1)	(1)	(0)	(0)
Net Changes in Cash	**352**	**(62)**	**10**	**82**	**(44)**	**82**	**97**	**167**	**147**

Appendix 12: Football Field



Appendix 13: Free Cash Flow to the Firm Methodology

In Millions of USD	FY2020	FY2021	FY2022	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E
	12/31/2020	*12/31/2021*	*12/31/2022*	*12/31/2023*	*12/31/2024*	*12/31/2025*	*12/31/2026*	*12/31/2027*	*12/31/2028*
Revenue	**6,321**	**7,952**	**9,778**	**11,811**	**13,074**	**14,385**	**15,606**	**16,880**	**18,137**
(-) COGS	5,271	6,806	8,586	10,471	11,523	12,679	13,754	14,878	15,986
Gross Profit	**1,050**	**1,146**	**1,192**	**1,339**	**1,551**	**1,706**	**1,851**	**2,002**	**2,152**
(-) Operating Expense	631	776	1,015	1,250	1,340	1,475	1,600	1,731	1,859
EBIT	**419**	**370**	**177**	**89**	**211**	**232**	**251**	**272**	**292**
(-) Abormal Losses (Gains)	(8)	(36)	52	51	43	46	55	58	61
(-) Income Tax Expense	102	99	9	(39)	28	29	29	33	35
NOPAT	**325**	**306**	**116**	**77**	**139**	**157**	**167**	**180**	**195**
(+) Depreciation	298	423	507	610	667	734	797	862	926
(+) Non-Cash Adjustments	33	(73)	(22)	(41)	50	46	21	37	41
(-) Change in NWC	284	115	(166)	501	195	349	266	299	285
(-) CAPEX	—	538	337	163	149	152	190	259	301
FCFF	**656**	**3**	**429**	**(18)**	**513**	**437**	**529**	**520**	**576**
PV FCFF	**—**	**—**	**—**	**(16)**	**490**	**381**	**422**	**379**	**384**

FCFF Assumptions

	Proxy	Weight
Risk-Free Rate	**4.71%**	**100%**
10-Year Treasury	4.71%	100%
30-Year Treasury	4.87%	0%
Expected Market Risk Premium	**10.22%**	**100%**
SPX 500	10.22%	100%
Beta	**1.33**	**100%**
Bloomberg	1.26	0%
Team Analysis	1.26	100%
Levered Beta	1.33	100%
Cost of Debt	**5.90%**	**100%**
Pre-tax cost of debt	5.05%	100%
After-tax cost of debt	3.99%	100%
Debt Adjustment Factor	1.48	100%
Capital Asset Pricing Model (CAPM)	**12.05%**	**80%**
Bloomberg	11.74%	0%
Team Analysis	12.05%	100%
Earnings Capitalization Model	**11.31%**	**20%**
Team Analysis	11.31%	100%
WACC	**9.46%**	**100%**
Bloomberg	8.80%	25%
Team Analysis	9.50%	50%
Comparable Set	10.03%	25%
Terminal Growth	**2.31%**	**100%**
Long-term Inflation	2.49%	40%
Real GDP	2.00%	50%
Industry Growth	3.20%	10%

Risk-Free Rate: Given that MasTec is a U.S. domiciled company, the 10-year and 30-year Treasury are appropriate proxies for the risk-free rate.

Market Risk Premium: The expected market risk premium was found by looking at long-run returns produced by SPX 500.

Beta: 5-year monthly Bloomberg data, regression analysis respectively yields a 1.26 beta, when taking into systematic risk MasTec's levered beta yields 1.33

Cost of Debt: MasTec's credit profile indicates bond ratings of BBB- indicating a debt adjustment factor of 1.48, however the outlook on their debt is negative.

Capital Asset Pricing Model: The CAPM was calculated using the levered beta, expected market risk premium, and the 10-year risk free rate. CAPM being weighted 80% provides the COE of 12.05%

Earnings Capitalization Method: The earnings capitalization method was also utilized to determine an alternative cost of equity. With ECM being weighted 20% and given the forecast showing low organic and inorganic growth the COE comes out to 11.31%

WACC: Using MasTec's optimal capital structure, the WACC is calculated at 9.50, however when looking at Bloomberg, team analysis and MasTec's Comparable set, weighted at 25%, 50%, and 25% respectively the WACC comes out to 9.46%

Terminal Growth: Long-term inflation, real GDP, and industry growth as proxies for perpetual growth, Since MasTec has faced internal challenges, they may not be able to realize some of the industry growth benefits permitting a smaller weight of industry

Perpetuity Growth Method	
Terminal Growth Rate	2.3%
FY 2028E Free Cashflow	576
Terminal Value	8257
(+) PV of Terminal Value:	5497
(+) PV of Free Cash Flow	2040
Implied Enterprise Value	7537
% of Implied EV from Terminal	73%
(-) Debt	3302
(+) Cash	371
(-) Preferred Stock	—
(-) Non-Controlling Interest	4
Equity Value	4601
Shares Outstanding	79
Target Price	$58.37

Exit Multiples Method	
EV/EBITDA Multiple	9.2
EBITDA	923
Terminal Value	8490
(+) PV of Terminal Value:	5652
(+) Sum of PV of Free Cash Flows	2040
Implied Enterprise Value	7691
% of Implied EV from Terminal	73%
(-) Debt	3302
(+) Cash	371
(-) Preferred Stock	—
(-) Non-controlling Interest	4
Equity Value	$4,755.77
Shares Outstanding	$78.82
Target Price	$60.34

Appendix 14: Sensitivity Analysis

WACC

Terminal Growth	7.96%	8.46%	8.96%	**9.46%**	9.96%	10.46%	10.96%
3.06%	$98.67	$86.21	$75.87	$67.15	$59.69	$53.25	$47.62
2.81%	$93.11	$81.69	$72.13	$64.01	$57.03	$50.96	$45.64
2.56%	$88.07	$77.55	$68.68	$61.10	$54.54	$48.82	$43.78
2.31%	$83.47	$73.75	$65.49	$58.39	$52.22	$46.81	$42.03
2.06%	$79.27	$70.25	$62.53	$55.87	$50.05	$44.92	$40.38
1.81%	$75.40	$67.00	$59.78	$53.51	$48.01	$43.14	$38.81
1.56%	$71.84	$64.00	$57.22	$51.30	$46.09	$41.46	$37.33

WACC

EV/EBITDA	7.96%	8.46%	8.96%	**9.46%**	9.96%	10.46%	10.96%
10.7	$78.28	$76.15	$74.08	$72.06	$70.08	$68.15	$66.27
10.2	$74.13	$72.09	$70.10	$68.16	$66.26	$64.41	$62.60
9.7	$69.98	$68.03	$66.12	$64.26	$62.44	$60.67	$58.94
9.2	$65.84	$63.97	$62.14	$60.36	$58.62	$56.93	$55.27
8.7	$61.69	$59.90	$58.16	$56.46	$54.80	$53.19	$51.60
8.2	$57.54	$55.84	$54.18	$52.57	$50.99	$49.44	$47.94
7.7	$53.39	$51.78	$50.20	$48.67	$47.17	$45.70	$44.27

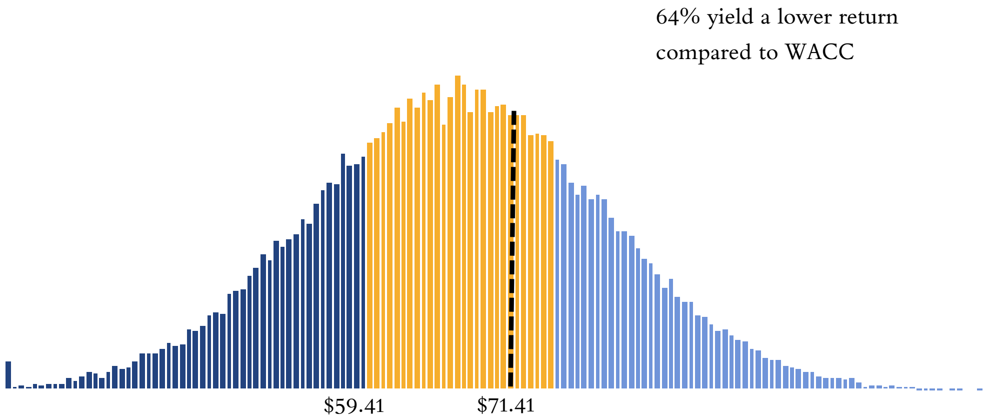
Revenue Growth

Terminal Growth	30%	20%	10%	**0%**	-10%	-20%	-30%
3.06%	$76.40	$73.18	$70.10	$67.16	$64.34	$61.64	$59.07
2.81%	$72.96	$69.85	$66.87	$64.02	$61.29	$58.68	$56.19
2.56%	$69.77	$66.76	$63.87	$61.11	$58.46	$55.93	$53.52
2.31%	$66.81	$63.88	$61.08	$58.39	$55.83	$53.38	$51.03
2.06%	$64.05	$61.20	$58.48	$55.87	$53.38	$51.00	$48.72
1.81%	$61.46	$58.70	$56.05	$53.51	$51.09	$48.77	$46.55
1.56%	$59.04	$56.35	$53.77	$51.31	$48.94	$46.68	$44.52

Revenue Growth

EV/EBITDA	30%	20%	10%	**0%**	-10%	-20%	-30%
10.7	$73.83	$73.22	$72.63	$72.06	$71.50	$70.97	$70.45
10.2	$69.93	$69.32	$68.73	$68.16	$67.61	$67.07	$66.55
9.7	$66.04	$65.43	$64.83	$64.26	$63.71	$63.17	$62.65
9.2	$62.14	$61.53	$60.94	$60.36	$59.81	$59.27	$58.75
8.7	$58.24	$57.63	$57.04	$56.46	$55.91	$55.37	$54.86
8.2	$54.34	$53.73	$53.14	$52.57	$52.01	$51.48	$50.96
7.7	$50.44	$49.83	$49.24	$48.67	$48.11	$47.58	$47.06

Appendix 15: Monte Carlo Simulation



64% yield a lower return compared to WACC

Simulation Statistics	
Trials	50,000
Target Price	$59.41
25th Percentile	$48.61
Mean	$63.49
Median	$63.55
75th Percentile	$78.36
Standard Deviation	$22.17
Skew	-0.02
Kurtosis	0.03
Below Target Price	42.6%
Below Current Price	53.2%
Below WACC	64.0%

Appendix 16: Relative Valuation

		Price / Earnings					**Price/Sales**					**EV/EBIT**					**EV/EBITDA**				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
MasTec	MTZ US Equity	13.0x	16.1x	22.2x	84.0x	965.9x	0.7x	0.8x	0.8x	0.7x	0.5x	11.1x	13.9x	20.8x	72.6x	67.4x	7.1x	7.5x	9.2x	8.5x	9.4x
Peer Group																					
Quanta Services	PWR US Equity	14.4x	21.9x	32.0x	36.2x	45.0x	0.5x	0.9x	1.3x	1.2x	1.6x	12.9x	18.1x	29.9x	27.4x	40.0x	10.3x	16.3x	13.3x	16.0x	15.1x
Dycom Industries	DY US Equity	31.3x	41.0x	74.7x	26.2x	17.2x	0.4x	0.8x	0.9x	0.8x	0.8x	19.1x	27.1x	48.6x	40.0x	19.0x	10.2x	7.8x	13.9x	9.7x	7.8x
MYR Group	MYRG US Equity	15.7x	18.0x	23.0x	1.2x	26.9x	0.3x	0.5x	0.8x	0.5x	0.7x	12.4x	11.8x	15.1x	13.4x	21.1x	7.8x	11.0x	8.3x	10.9x	10.7x
Primoris Services	PRIM US Equity	15.5x	13.3x	12.7x	13.6x	20.4x	0.4x	0.4x	0.4x	0.3x	0.3x	10.7x	8.9x	10.8x	11.2x	14.2x	5.0x	6.0x	5.6x	6.6x	6.7x
Average		19.2x	23.5x	35.6x	19.3x	27.4x	0.4x	0.6x	0.8x	0.7x	0.9x	13.8x	16.5x	26.1x	23.0x	23.6x	8.3x	10.3x	10.3x	10.8x	10.1x
Premium/(Discount)		-33%	-31%	-38%	335%	3431%	73%	25%	2%	-5%	-42%	-19%	-16%	-20%	216%	186%	-15%	-27%	-11%	-21%	-7%
Historical Average		58%					24%					40%					-19%				
MasTec Target Multiple		43.3x					1.1x					33.0x					8.2x				
Price Target		**$42.82**					**$177.72**					**$50.84**					**$59.65**				