

## NV5 Global Inc.

# Solid finish to the year – succession plan announced

Reiterate Rating: NEUTRAL | PO: 110.00 USD | Price: 108.91 USD

## Q4 and 2024 guidance broadly in line with consensus

NV5 capped off the year with a solid Q4: EBITDA of \$37.3bn increased 15% YoY on a 14% gross revenue gain, and was 4% above consensus (\$36mn). We were encouraged that cash from ops increased (+23%) after a slower start to the year. NV5's 2024 guidance includes gross revenue of \$930-\$935mn (+8-9% YoY), GAAP EPS of \$2.86-\$2.92 (-1% to +1% YoY), and adj. EPS of \$5.00-\$5.06 (+4-5% YoY) – broadly in line with consensus (Sales \$930mn, adj EPS \$5.02). The 2024 guide suggests that the company is likely starting the year by erring on the side of caution given uncertainty around CR (project delays), weather, and integration of recent acquisitions come in at lower margin.

## Succession Plan effective March 1<sup>st</sup>

Mr. Dickerson Wright (Chairman, CEO) announced a succession plan where he will transition to Executive Chairman effective March 1<sup>st</sup> with three units continuing to report into him: Buildings & Technology, Infrastructure, Geospatial. Effective March 1, Alex Hockman (Infrastructure) and Ben Heraud (Buildings & Technology) are co-CEOs and Dan Levine as President, Geospatial. In our view, this is a notable transition to monitor as Mr. Wright is the Founder and integral in many aspects (including M&A).

## Headwinds: rates, Continuing Resolution (CR) overhang

NV5 expects only modest organic growth in 2024 due to some headwinds weighing on certain areas of the portfolio. Certain verticals (cumulatively ~\$170-\$180mn) such as real estate transactions, construction quality assurance (CQA), and mechanical/electrical plumbing design continue to be impacted by higher rates. Additionally, The CR is pushing some project activity and discretionary work from federal agencies to the right.

## Bright spots: Geospatial (long-term), clean energy

Areas that are offsetting the headwinds include i) Geospatial: organic growth of 6% in 2023 in spite of federal funding impact to projects with expectations of 11% in 2024 (albeit, 2H weighted). ii) international: mechanical electrical plumbing design for projects, iii) domestic: clean energy design. We update our estimate post Q4. We raise our PO to \$110 (\$108) based on 12.0x 2024 EBITDA as we see a higher multiple warranted given the re-rating in the peer group and higher growth in Geospatial (vs 9.5x prior). Reiterate Neutral – while we see some positives (Geospatial), we see rates and CR as an overhang.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.19	4.81	5.04	5.79	6.67
GAAP EPS	3.27	2.88	2.90	3.55	4.29
EPS Change (YoY)	1.6%	-7.3%	4.8%	14.9%	15.2%
Consensus EPS (Bloomberg)			5.02	5.90	6.27
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	21.0x	22.6x	21.6x	18.8x	16.3x
GAAP P/E	33.3x	37.8x	37.6x	30.7x	25.4x
EV / EBITDA*	13.7x	13.5x	12.5x	11.3x	10.3x
Free Cash Flow Yield*	4.5%	2.6%	4.2%	4.8%	5.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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Timestamp: 23 February 2024 05:00AM EST

23 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	108.00	110.00
2024E Rev (m)	935.0	933.3
2025E Rev (m)	986.5	998.6
2026E Rev (m)	NA	1,058.5
2024E EPS	5.20	5.04
2025E EPS	6.80	5.79
2026E EPS	NA	6.67

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### Stock Data

Price	108.91 USD
Price Objective	110.00 USD
Date Established	23-Feb-2024
Investment Opinion	C-2-9
52-Week Range	89.30 USD - 126.15 USD
Mkt Val (mn) / Shares Out (mn)	1,731 USD / 15.9
Free Float	87.6%
Average Daily Value (mn)	6.33 USD
BofA Ticker / Exchange	NVEE / NAS
Bloomberg / Reuters	NVEE US / NVEE.OQ
ROE (2024E)	9.6%
Net Dbt to Eqty (Dec-2023A)	22.4%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CR = Continuing Resolution, NV5 = NVEE

# iQprofile<sup>SM</sup> NV5 Global Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.5%	6.0%	5.2%	5.6%	6.2%
Return on Equity	12.0%	10.1%	9.6%	10.2%	10.7%
Operating Margin	8.4%	7.1%	7.8%	8.4%	9.4%
Free Cash Flow	78	46	74	83	101

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	0.8x	1.2x	1.1x	1.1x
Asset Replacement Ratio	0.4x	0.3x	0.3x	0.3x	0.3x
Tax Rate	19.9%	7.5%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	3.9%	22.4%	11.9%	1.9%	-8.2%
Interest Cover	17.4x	4.7x	5.6x	7.7x	9.0x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	787	862	933	999	1,059
% Change	11.3%	9.5%	8.3%	7.0%	6.0%
Gross Profit	386	430	468	505	538
% Change	7.4%	11.5%	8.6%	7.9%	6.5%
EBITDA	135	138	149	165	180
% Change	1.7%	2.0%	8.2%	10.4%	9.2%
Net Interest & Other Income	(4)	(13)	(13)	(11)	(11)
<b>Net Income (Adjusted)</b>	<b>79</b>	<b>74</b>	<b>78</b>	<b>90</b>	<b>103</b>
<b>% Change</b>	<b>5.9%</b>	<b>-6.0%</b>	<b>4.8%</b>	<b>14.9%</b>	<b>15.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	50	45	45	55	66
Depreciation & Amortization	44	58	56	60	64
Change in Working Capital	(17)	(43)	(33)	(38)	(35)
Deferred Taxation Charge	(18)	(26)	0	0	0
Other Adjustments, Net	35	28	22	22	22
Capital Expenditure	(16)	(16)	(16)	(16)	(16)
<b>Free Cash Flow</b>	<b>78</b>	<b>46</b>	<b>74</b>	<b>83</b>	<b>101</b>
<b>% Change</b>	<b>-12.1%</b>	<b>-41.6%</b>	<b>60.6%</b>	<b>12.3%</b>	<b>22.3%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(80)	151	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	39	45	118	201	302
Trade Receivables	238	266	295	337	374
Other Current Assets	14	18	18	18	18
Property, Plant & Equipment	42	50	67	83	100
Other Non-Current Assets	603	791	735	675	612
<b>Total Assets</b>	<b>936</b>	<b>1,171</b>	<b>1,234</b>	<b>1,314</b>	<b>1,406</b>
Short-Term Debt	26	13	13	13	13
Other Current Liabilities	135	146	142	145	148
Long-Term Debt	40	205	205	205	205
Other Non-Current Liabilities	41	30	30	30	30
<b>Total Liabilities</b>	<b>241</b>	<b>395</b>	<b>391</b>	<b>394</b>	<b>397</b>
<b>Total Equity</b>	<b>694</b>	<b>776</b>	<b>843</b>	<b>920</b>	<b>1,009</b>
<b>Total Equity &amp; Liabilities</b>	<b>936</b>	<b>1,171</b>	<b>1,234</b>	<b>1,314</b>	<b>1,406</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Engineering & Construction

## Company Description

NV5 is a leading provider of professional engineering & consulting solutions, with focus on US public infrastructure and building end markets. The company focuses on front-end design or consulting work vs. higher-risk, more lumpy construction projects. Since its inception, M&A has been at the core of NV5's growth strategy in a fragmented market, with management completing >100 deals.

## Investment Rationale

We view NV5 as a unique growth story within our Engineering & Construction (E&C) coverage: an engineering firm biased to 'Consulting' vs 'Construction', limited fixed price contract risk, executing an M&A roll-up strategy, and delivering strong growth in a stable industry. That said, elevated leverage (3.5x) and DoT funding risks are key concerns to monitor near-term.

## Stock Data

Average Daily Volume 58,095

## Quarterly Earnings Estimates

	2023	2024
Q1	0.88A	1.00E
Q2	1.29A	1.40E
Q3	1.51A	1.35E
Q4	1.14A	1.27E

## Price objective basis & risk

### NV5 Global Inc. (NVEE)

Our PO of \$110 is based on applying a 12x EV/EBITDA multiple to '24 forecast, which is at the mid-point of the historical range (8-15x). While the multi-year outlook is improving across infrastructure, utilities, and buildings, the M&A outlook is more uncertain given rising competition for assets and higher rates weigh on certain areas of the portfolio (real estate transactions).

Downside risks to our PO are:

- 1) M&A is an inherently risky strategy reliant on acquisition target availability and successful integration. Closed its largest acquisition to date in December 2019.
- 2) Elevated leverage amidst COV-19 uncertainty and funding risks to state budgets
- 3) Low stock liquidity with high insider ownership creates volatility

Upside risks to our PO are:

- 1) Infrastructure Stimulus
- 2) More resilient customer spending outlook across public and private clients
- 3) Better than expected synergies with recent acquisitions (Quantum Spatial)

## Analyst Certification

I, Michael Feniger, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
<b>NEUTRAL</b>				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger



## US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger
	Waste Management	WM	WM US	Michael Feniger

## UNDERPERFORM

	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

## Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

## Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

## Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

## Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

## Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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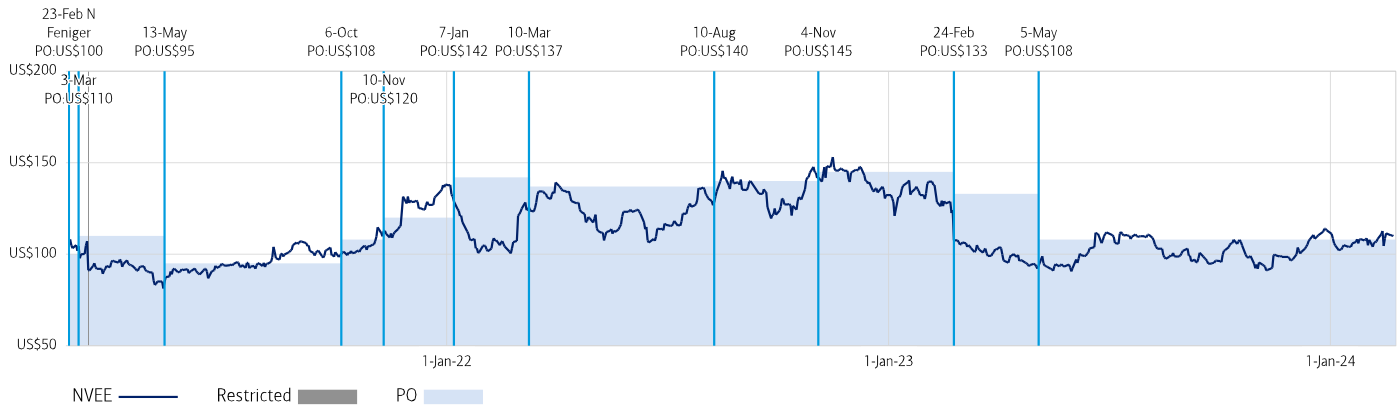
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# Disclosures

## Important Disclosures

### NV5 Global Inc. (NVEE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Engineering & Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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