

NV5 Global Inc.

Reducing FY guide - record backlog but higher rates pressure certain verticals

Reiterate Rating: NEUTRAL | PO: 108.00 USD | Price: 95.51 USD

3Q underwhelms – lowering FY sales & EPS outlook

NV5 reported a light set of results & reduced its FY outlook. Q3 EBITDA of \$37.8mn was up 5% YoY on a 17% gross revenue gain and was 4% below cons (\$39.4mn). EBITDA margin of 15.8% fell 185bps YoY largely due to delays in timing of LNG. NV5 noted that their results were also impacted by certain acquisitions expected to be completed in 2H23 being pushed further to the right. As a result, NV5 lowered their FY23 gross revenue to \$860-\$868mn (\$878-\$915mn) and adj. EPS to \$4.79-\$5.16 (\$5.28-\$5.69).

Higher interest rates pressure certain verticals

NV5 noted that higher rates negatively impacted their construction and real estate transaction service lines, particularly across materials testing and geotechnical engineering in their construction, quality, and assurance (CQA) vertical. This business line is 50-50 split between public and private work, with projects getting delayed across private sector development. Additionally, we sense some delays around utilities undergrounding work and potential risk around some offshore wind related activity.

NV5 reports a record backlog

Record backlog of \$833mn continues to grow (+9% YoY, +4% QoQ) indicating positive underlying demand. Encouragingly, NV5 noted that their infrastructure business line has not been impacted by higher rates and is seeing steady growth across road & bridges design and inspection projects. Additionally, NV5 highlighted strength across clean energy and technology (+26 organic growth YoY) and their international mission critical business line (+12% organic growth) with momentum to continue well into next year. Geospatial delivered 7% organic growth YTD and NV5 noted that the integration of both Axim and L3Harris acquisitions are anticipated to be complete by year end, thereby expanding their geospatial revenue stream across additional geographies (Europe, Asia).

Reiterate Neutral

We reduce our 2023/24 estimates following Q3 results and the revised outlook. We maintain our PO of \$108 based on 9.5x EV/EBITDA 2024e as we roll forward valuation a year and apply a lower multiple given the higher rate environment weighing on certain areas of the portfolio (vs 10x 2023e). We reiterate our Neutral rating – while we see positives (infrastructure), we see rising rates remain as an overhang on some areas.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.11	5.19	5.05	5.20	6.80
GAAP EPS	3.22	3.27	2.90	3.55	4.90
EPS Change (YoY)	37.4%	1.6%	-2.7%	3.0%	30.8%
Consensus EPS (Bloomberg)			4.54	5.33	6.95
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	18.7x	18.4x	18.9x	18.4x	14.0x
GAAP P/E	29.7x	29.2x	32.9x	26.9x	19.5x
EV / EBITDA*	11.2x	11.0x	10.8x	9.3x	8.0x
Free Cash Flow Yield*	5.9%	5.2%	5.7%	6.6%	7.7%

* For full definitions of *IQmethod*SM measures, see page 4.

03 November 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	883.5	865.5
2024E Rev (m)	927.6	935.0
2025E Rev (m)	978.7	986.5
2023E EPS	5.35	5.05
2024E EPS	6.02	5.20

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Stock Data

Price	95.51 USD
Price Objective	108.00 USD
Date Established	5-May-2023
Investment Opinion	C-2-9
52-Week Range	89.30 USD - 154.97 USD
Mkt Val (mn) / Shares Out (mn)	1,518 USD / 15.9
Average Daily Value (mn)	6.94 USD
BofA Ticker / Exchange	NVEE / NAS
Bloomberg / Reuters	NVEE US / NVEE.OQ
ROE (2023E)	10.8%
Net Dbt to Eqty (Dec-2022A)	3.9%
ESGMeter™	Medium

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Timestamp: 03 November 2023 12:06AM EDT

iQprofileSM NV5 Global Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.5%	6.5%	6.1%	7.2%	8.6%
Return on Equity	14.7%	12.0%	10.8%	10.2%	12.0%
Operating Margin	9.7%	8.4%	6.6%	9.3%	11.4%
Free Cash Flow	89	78	87	100	118

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.4x	1.2x	1.3x	1.4x	1.3x
Asset Replacement Ratio	0.3x	0.4x	0.3x	0.3x	0.3x
Tax Rate	24.1%	19.9%	NM	25.0%	25.0%
Net Debt-to-Equity Ratio	14.3%	3.9%	-7.9%	-19.2%	-29.9%
Interest Cover	11.0x	17.4x	4.4x	6.7x	10.2x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	707	787	865	935	986
% Change	7.2%	11.3%	10.0%	8.0%	5.5%
Gross Profit	359	386	429	473	505
% Change	7.4%	7.4%	11.2%	10.2%	6.8%
EBITDA	133	135	138	160	186
% Change	26.0%	1.7%	2.3%	15.7%	16.1%
Net Interest & Other Income	(6)	(4)	(13)	(13)	(11)
Net Income (Adjusted)	75	79	79	81	106
% Change	58.1%	5.9%	-0.9%	2.9%	30.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	47	50	45	55	76
Depreciation & Amortization	45	44	51	51	51
Change in Working Capital	(14)	(17)	(13)	(10)	(14)
Deferred Taxation Charge	(7)	(18)	0	0	0
Other Adjustments, Net	30	35	19	19	19
Capital Expenditure	(12)	(16)	(16)	(16)	(16)
Free Cash Flow	89	78	87	100	118
% Change	1.5%	-12.1%	11.3%	15.0%	17.2%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	48	39	126	226	344
Trade Receivables	244	238	257	271	288
Other Current Assets	12	14	14	14	14
Property, Plant & Equipment	33	42	57	73	88
Other Non-Current Assets	625	603	552	501	449
Total Assets	962	936	1,005	1,084	1,183
Short-Term Debt	27	26	26	26	26
Other Current Liabilities	137	135	140	144	148
Long-Term Debt	111	40	40	40	40
Other Non-Current Liabilities	62	41	41	41	41
Total Liabilities	337	241	247	251	254
Total Equity	625	694	759	833	929
Total Equity & Liabilities	962	936	1,005	1,084	1,183

* For full definitions of iQmethodSM 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 72,632

Quarterly Earnings Estimates

	2022	2023
Q1	0.99A	0.88A
Q2	1.49A	1.29A
Q3	1.50A	1.51A
Q4	1.21A	1.40E

Price objective basis & risk

NV5 Global Inc. (NVEE)

Our PO of \$108 is based on applying a 9.5x EV/EBITDA multiple to '24 forecast, which is near the lower-end 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

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US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
	Cummins Inc	CMI	CMI US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	H&E Equipment Services Inc	HEES	HEES 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
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	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger



US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	Ritchie Bros	RBA	RBA US	Michael Feniger
	Terex Corp.	TEX	TEX 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
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger
RVW				
	Fluor	FLR	FLR US	Michael Feniger

IQmethodSM 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 & 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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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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	10	50.00%	Buy	4	40.00%
Hold	6	30.00%	Hold	3	50.00%
Sell	4	20.00%	Sell	3	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} 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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Underperform	N/A	≥ 20%

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