

## NV5 Global Inc.

# Geospatial a bright spot – weather and higher rates pressure operations

Reiterate Rating: NEUTRAL | PO: 108.00 USD | Price: 93.77 USD

## Q1 results mixed – FY23 outlook reaffirmed

NV5 reported a mixed Q1 and reaffirmed its FY23 guidance. Q1 EBITDA of \$27.7mn was down 4% YoY on a gross revenue decline of 3% YoY. 3% Adj. EPS of \$0.88 declined 11% YoY but was 7% above consensus. NV5 noted that 1Q results were negatively impacted by adverse weather conditions during the quarter (particularly on the West Coast) and higher interest rates that affected its real-estate transactions business. However, NV5 expects these pressures to abate over the back half of the year and have reiterated its FY23 guide (i.e., gross revenue \$878-\$915mn and adj. EPS \$5.28-\$5.69).

## Geospatial gains more momentum via recent acquisitions

Geospatial is becoming a rising part of the total earnings stream. Organic growth of 15% in Q1 was a bright spot and NV5 expects a run rate of ~\$280mn going forward. The company completed the acquisitions of Axim and L3Harris during the quarter - the latter of which closed earlier than originally anticipated (i.e., mid-year 2023). The acquisitions help expand geospatial data analytics and subscription based software services. NV5 expects to realize immediate synergies and a notable uptick in backlog from these acquisitions once fully incorporated from 2H23, particularly across defense sector projects and satellite analytics. In our view, a government shutdown is a potential risk to monitor for the high margin, faster growth outlook of Geospatial due to federal work.

## Cash flow light: impacted by working capital fluctuations

NV5 believes M&A is key to their growth strategy and typically funds acquisitions via cash from operations given its strong balance sheet (1.0x leverage). However, FCF of \$5.12mn was down 87% YoY during the quarter, which the company attributed to timing of working capital changes. We look to see FCF recover over the second half of the year.

## Reiterate Neutral: lowering estimates and PO

We lower our 2023E estimates on the back of the light 1Q performance yet remain inside the FY23 guidance range. We lower our PO to \$108 (\$133 prior) based on 10.5x 2023e EBITDA as we believe rising rates and macro uncertainty warrant a lower multiple (vs 13x prior). We reiterate our Neutral rating - while we see positives to the portfolio (Geospatial), rising rates remain an overhang to other areas (real estate transactions).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.11	5.19	5.35	6.02	6.80
GAAP EPS	3.22	3.27	3.11	4.26	4.90
EPS Change (YoY)	37.4%	1.6%	3.1%	12.5%	13.0%
Consensus EPS (Bloomberg)			5.35	5.89	4.98
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	18.4x	18.1x	17.5x	15.6x	13.8x
GAAP P/E	29.1x	28.7x	30.2x	22.0x	19.1x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	11.0x	10.8x	9.5x	8.7x	7.9x
Free Cash Flow Yield*	6.1%	5.3%	5.2%	7.3%	8.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

05 May 2023

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	133.00	108.00
2023E Rev (m)	900.1	883.5
2024E Rev (m)	945.1	927.6
2025E Rev (m)	997.1	978.7
2023E EPS	5.50	5.35
2024E EPS	6.14	6.02
2025E EPS	6.93	6.80

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### Stock Data

Price	93.77 USD
Price Objective	108.00 USD
Date Established	5-May-2023
Investment Opinion	C-2-9
52-Week Range	91.42 USD - 154.97 USD
Mrkt Val (mn) / Shares Out (mn)	1,473 USD / 15.7
Average Daily Value (mn)	8.54 USD
BofA Ticker / Exchange	NVEE / NAS
Bloomberg / Reuters	NVEE US / NVEE.OQ
ROE (2023E)	11.4%
Net Dbt to Eqty (Dec-2022A)	3.9%

#### ESGMeter<sup>TM</sup>

Medium

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 05 May 2023 02:35AM EDT

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

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.5%	6.5%	6.8%	8.2%	8.5%
Return on Equity	14.7%	12.0%	11.4%	11.6%	11.8%
Operating Margin	9.7%	8.4%	8.6%	10.8%	11.6%
Free Cash Flow	89	78	77	107	118

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.4x	1.2x	1.1x	1.3x	1.3x
Asset Replacement Ratio	0.3x	0.4x	0.3x	0.3x	0.3x
Tax Rate	24.1%	19.9%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	14.3%	3.9%	-6.5%	-18.4%	-29.1%
Interest Cover	11.0x	17.4x	6.6x	8.7x	9.8x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	707	787	883	928	979
% Change	7.2%	11.3%	12.3%	5.0%	5.5%
Gross Profit	359	386	431	454	483
% Change	7.4%	7.4%	11.5%	5.4%	6.6%
EBITDA	133	135	153	168	185
% Change	26.0%	1.7%	13.3%	9.7%	10.1%
Net Interest & Other Income	(6)	(4)	(12)	(12)	(12)
<b>Net Income (Adjusted)</b>	<b>75</b>	<b>79</b>	<b>83</b>	<b>94</b>	<b>106</b>
<b>% Change</b>	<b>58.1%</b>	<b>5.9%</b>	<b>5.0%</b>	<b>12.4%</b>	<b>12.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	47	50	48	66	76
Depreciation & Amortization	45	44	47	47	51
Change in Working Capital	(14)	(17)	(22)	(10)	(12)
Deferred Taxation Charge	(7)	(18)	0	0	0
Other Adjustments, Net	30	35	19	19	19
Capital Expenditure	(12)	(16)	(16)	(16)	(16)
<b>Free Cash Flow</b>	<b>89</b>	<b>78</b>	<b>77</b>	<b>107</b>	<b>118</b>
<b>% Change</b>	<b>1.5%</b>	<b>-12.1%</b>	<b>-2.2%</b>	<b>39.4%</b>	<b>10.8%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	48	39	115	222	340
Trade Receivables	244	238	268	282	297
Other Current Assets	12	14	14	14	14
Property, Plant & Equipment	33	42	57	73	88
Other Non-Current Assets	625	603	557	509	458
<b>Total Assets</b>	<b>962</b>	<b>936</b>	<b>1,011</b>	<b>1,100</b>	<b>1,198</b>
Short-Term Debt	27	26	26	26	26
Other Current Liabilities	137	135	142	145	148
Long-Term Debt	111	40	40	40	40
Other Non-Current Liabilities	62	41	41	41	41
<b>Total Liabilities</b>	<b>337</b>	<b>241</b>	<b>249</b>	<b>252</b>	<b>255</b>
<b>Total Equity</b>	<b>625</b>	<b>694</b>	<b>762</b>	<b>847</b>	<b>943</b>
<b>Total Equity &amp; Liabilities</b>	<b>962</b>	<b>936</b>	<b>1,011</b>	<b>1,100</b>	<b>1,198</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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

91,034

## Quarterly Earnings Estimates

	2022	2023
Q1	0.99A	0.88A
Q2	1.49A	1.41E
Q3	1.50A	1.59E
Q4	1.21A	1.48E



## Price objective basis & risk

### NV5 Global Inc. (NVEE)

Our PO of \$108 is based on applying a 10.5x EV/EBITDA multiple to '23 forecast, which is near the middle 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
	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
	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
	Herc Holdings Inc	HRI	HRI 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
	Timken Company	TKR	TKR 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
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Fluor	FLR	FLR 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
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	Ritchie Bros	RBA	RBA US	Michael Feniger

**US - Machinery Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Lightning e-Motors	ZEV	ZEV US	Sherif El-Sabbahy
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	PACCAR Inc.	PCAR	PCAR US	Michael Feniger
	Proterra Inc.	PTRA	PTRA US	Sherif El-Sabbahy
	XOS Inc.	XOS	XOS US	Sherif El-Sabbahy

**IQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**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

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**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**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**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

Basic EBIT + Depreciation + Amortization

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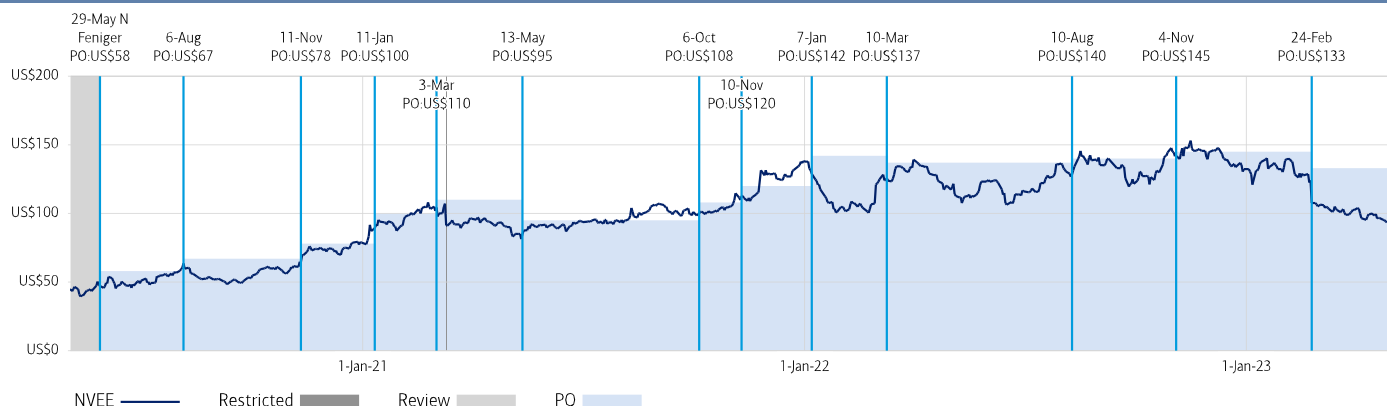
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### NV5 Global Inc. (NVEE) Price Chart



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 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	8	42.11%	Buy	6	75.00%
Hold	8	42.11%	Hold	4	50.00%
Sell	3	15.79%	Sell	2	66.67%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

<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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