ALLIANCE RESEARCH

Parent Financial Review

Helping the Commercial Real Estate Industry Reduce Financial Risk Since 1989

MasTec, Inc.

Highlights

Key Positives

- MasTec has a long history of profitable growth in the engineering and construction industry, as it has scaled from $1 billion in sales in 2007 to >$7 billion currently.
- MasTec's growth is being driven by long-term secular growth drivers including 5G deployment, U.S. shale oil and gas production, and an aging power grid in need of significant upgrades.
- The Company's EBITDA margins have been on an upward trajectory since 2015 and are likely to reach record levels in 2019.
- The Company's revenue growth and increasing profitability combined with their low CAPEX intensity has driven record free cash flows.
- The balance sheet is in good shape with a leverage ratio in the low-2.0 range and stable-to-declining levels of nominal debt.
- LBA's out-of-pocket cost is relatively low at ~$48,000.

Key Negatives/Risks

- The E&C industry is highly cyclical as economic slowdowns and uncertainty drive project delays and cancellations that can severely impact financial results for companies like MasTec.
- 2015 highlights the cyclical exposure as energy and communications were both pressured, driving lower EBITDA that took leverage above the 5X level that we consider "highly leveraged".
- In 2018, AT&T, EQT Corp., and Energy Transfer affiliates made up 23%, 20%, and 14% of sales, respectively, highlighting the Company's customer concentration risk.
- The Company acknowledged supply constraints on the labor front which could drive up costs and negatively impact margins in the future.
- It is likely that company-wide EBITDA margins peaked in 2019 given the magnitude of smaller oil and gas pipeline projects that were completed in the year, whereas many larger projects in 2020 will have lower margins.

Financial Highlights

($ millions)	2016	2017	2018	9 mos. 2019
Revenues	$5,135	$6,607	$6,909	$5,474
EBITDA	442	621	661	621
Cash & equivalents	39	40	27	43
Total assets	3,183	4,067	4,440	4,859
Long-term debt	961	1,280	1,324	1,221
Equity	1,104	1,433	1,390	1,679

Conclusions

Risk Assessment/Credit Quality

Over the past decade-plus, MasTec has built itself into one of the leading engineering and construction players in the U.S. by growing their business organically while also opportunistically adding new offerings via M&A. They have also steadily improved the profitability metrics and maintained a healthy balance sheet, even in times of economic stress, which does significantly impact their business.

While the long-term track record has been strong, it has not been immune to volatility given the cyclical exposure and the possibility of product delays and cancellations. That being said, given the strong profitability, healthy balance sheet, and solid secular growth drivers behind a number of their businesses, we would rate the Company's overall financial picture as relatively strong.

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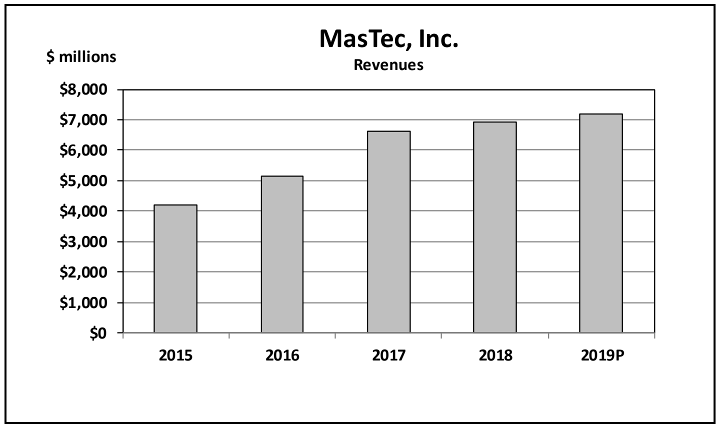
Analyst Notes

Revenues – MasTec's revenue has been in a solidly upward trend over the past few years, with 2016 and 2017 up 22% and 29% respectively, followed by a more normalized 5% increase in 2018. Management recently lowered their 2019 guidance from $7.7 billion to $7.2 billion, which would equate to 4% growth. Guidance was lowered primarily due to a large oil and gas project being pushed from the second half of 2019 into 2020 on regulatory delays. They also released preliminary 2020 guidance of sales growth of "low-double digits" which would imply revenue in the $8 billion range.



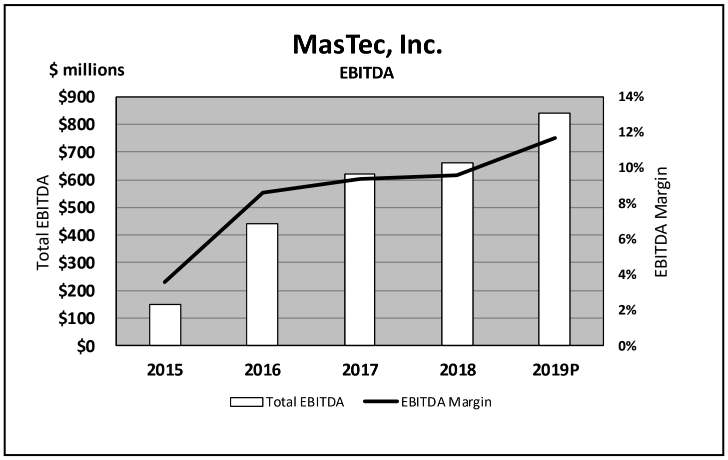
The Company's revenue growth is backed up by a strong and growing backlog, which offers a level of visibility into future revenue trends (they typically convert 70-90% of backlog into revenues in any given year). Backlog stood at $7.1 billion at the beginning of 2018 and $7.7 billion at the beginning of 2019 but has fallen to $7.5 billion as of the end of the third quarter of 2019. This total does not include $700 million in awards that were signed in Q3 but not yet transferred into actual backlog.

The Company breaks their revenue into four main segments: Communications (36%), Oil & Gas (45%), Electrical Transmission (7%), and Power Generation (12%). MasTec's client list includes many blue-chip communications, power, and energy companies, but there is also a fair amount of concentration risk in terms of individual clients and specific industries. AT&T (including DirecTV) accounted for 23% of sales in 2018 (down from 34% in 2016) and makes up the majority of the Company's communications segment revenue. EQT Corp. and Energy Transfer affiliates made up 20% and 14% of sales in 2018 respectively, combining for the majority of the Company's oil and gas business. EQT was a new customer in 2018 while Energy Transfer was 40% of total sales in 2017, highlighting how lumpy sales can be year to year.

The engineering and construction (E&C) services market is quite competitive with various international and national players as well as smaller regional players that focus on specific industries. Quanta Services, MYR Group, Dycom Industries, and Jacobs Engineering are just a few of their larger competitors that have national footprints and offer similar services. Given the somewhat commoditized services that these competitors offer, pricing can, at times, become irrational, which can impact the profitability of the entire industry (this tends to be exacerbated during a cyclical downturn in which competitors price to retain business to cover fixed costs rather than for profitability).

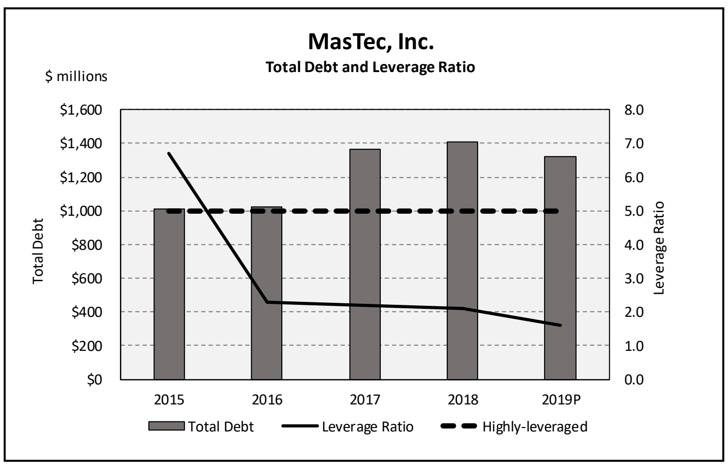
Analyst Notes

Profitability – MasTec's profitability has been improving over the periods reviewed, with EBITDA margins expected to reach new highs in 2019. Preliminary guidance for 2020 suggests another year of solid margins in the low double-digits range again. Oil & Gas has been pressured recently in terms of revenues, but that segment is still generating very strong margins (21.9% in Q3) helping to lift the margin profile of MasTec overall.



While the recent margin trajectory has been very strong, E&C companies have notoriously lumpy margins that depend on economic activity as well as deal flow to specific competitors. In a scenario where the U.S. economy was pressured and fell into a recession, MasTec's margins could fall precipitously as customers inevitably pushed off projects. Also, if MasTec was to lose one of their large customers, there would be significant near-term pressure on margins until the Company was able to adjust their cost base for the lower overall volumes.

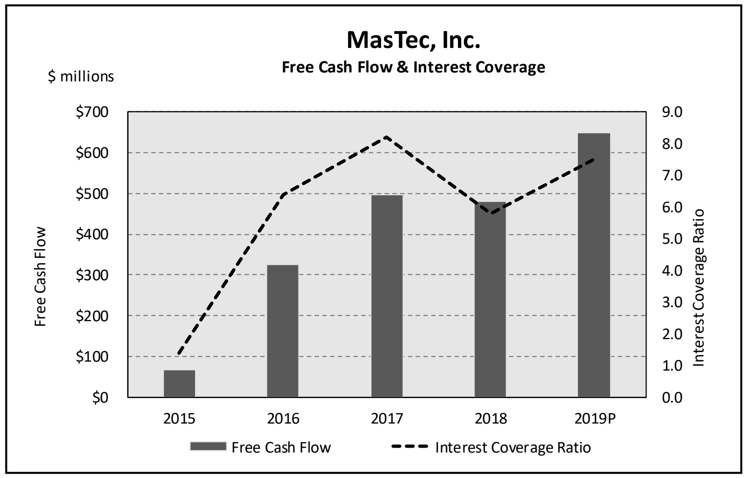
Capitalization – MasTec has maintained a healthy balance sheet over the past few years. The leverage ratio jumped to 6.7X in 2015 due to a very difficult operating environment that severely depressed EBITDA, but this did not persist as the leverage ratio declined to 2.0-2.2 in the following years. Because of the cyclical and lumpy nature of the Company's business, the leverage ratio will tick up during times of economic stress and then decline when fundamentals improve. If the leverage ratio increases significantly over any shorter time period, it is a situation worth monitoring, but it only becomes a red flag if debt levels rise and EBITDA remains depressed for longer periods of time.



There is currently ~$1.2 billion of long-term debt on the Company's balance sheet, broken down as follows: $251 million in two revolvers and $400 million in term loans both paying 3.4% under their $1.75 billion senior secured credit facility that matures in September 2024, $400 million in 4.875% senior notes due March 2023, and $283 million in finance leases and other obligations that they consider long-term debt. Their weighted average cost of debt is ~4% and they have no significant upcoming maturities before 2023. Standard & Poor's rates the Company's debt at 'BB' (below investment grade) with a stable outlook.

Analyst Notes

Cash Flow/Liquidity – MasTec has exhibited strong cash flows over the past few years and looks poised for a record in fiscal 2019. While 2015 was pressured by a difficult economic backdrop, free cash flow stayed positive and has ramped higher from there. 2018 also shows a slight drop-off, but this was mainly due to pressure on their energy business as clients pushed off projects due to falling commodity prices as well as tariff uncertainties. Through nine months of 2019, free cash flow has rebounded, assisted by easier comparisons, while the Company's other segments all continued to show broad-based strength. Management has guided for record free cash flow for the full year of 2019 with continued strength into 2020.



MasTec does not operate with much cash on the balance sheet, but they have ample liquidity under their recently amended and raised senior secured credit facility. As of September 30, 2019 they had $1 billion in available liquidity if they took on debt as term loans and $550 million if they instead used letters of credit. Unless we see a negative economic scenario unfold, or if the Company decides to pursue a large M&A (the most they have spent in any year in the past three years was $116 million in 2017), we would expect debt levels to remain relatively stable going forward given the Company's strong cash flow.

Corporate Profile

MasTec is a leading infrastructure construction company operating mainly throughout North America. Services include engineering, building, installation, maintenance, and upgrade of wireless, wireline, fiber, install-to-the-home, and customer fulfillment; energy pipeline and facilities; electrical transmission and distribution; and power generation and industrial. The Company began in the communications installation market and had less than $1 billion in revenues in 2007 and today has a revenue base of >$7 billion spread across communications, oil and gas, power generation, electrical transmission, and others.

Scope of Analysis

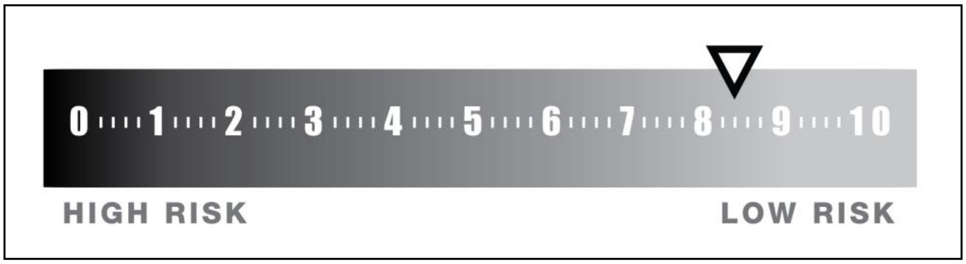
Our analysis of MasTec included (i) a review of the Company's 10-Ks for 2015-2018 and their 10-Q for the first nine months of 2019; (ii) an online search and review of information and sell-side reports about MasTec and its industry, clients, and competitors; and (iii) a review of articles from trade and business publications.

MasTec, Inc.
Financial Spreadsheet

($ in millions) *Fiscal year ending Dec. 31*	*2015*	*2016*	*2017*	*2018*	*9 mos.* *2019*
For the period					
Revenues	$4,208	$5,135	$6,607	$6,909	$5,474
Year-to-year growth rate	(9%)	22%	29%	5%	10%
Pre-tax income (as reported)	(68)	226	372	365	388
EBITDA (adjusted)	150	442	621	661	621
Margins					
Gross margin	11.6%	13.5%	13.0%	14.0%	15.3%
EBITDA margin	3.6%	8.6%	9.4%	9.6%	11.3%
Expense ratios (% of revs.)					
G&A expense	6.3%	5.1%	4.2%	4.2%	4.0%
Cash Flow					
EBITDA	150	442	621	661	621
Capital expenditures	(84)	(117)	(123)	(180)	(85)
Free cash flow	66	325	498	481	536
Interest expense	(48)	(51)	(61)	(83)	(58)
Interest coverage	1.4X	6.4X	8.2X	5.8X	9.2X
From operating activities	367	206	144	530	441
From investing activities	(129)	(141)	(273)	(182)	(144)
From financing activities	(259)	(30)	130	(361)	(282)
Net change in cash & equiv.	(19)	34	2	(13)	16
***At period end*[1]**					
Assets					
Cash & equivalents	5	39	40	27	43
Accounts receivable	911	1,156	1,598	1,924	1,953
Inventories	91	111	77	114	107
Total current assets	1,130	1,402	1,852	2,169	2,199
Prop., plant & equip. (net)	559	549	707	748	863
Intangible assets	199	180	191	169	185
Goodwill	989	996	1,138	1,100	1,141
Total assets	2,927	3,183	4,067	4,440	4,859
Liabilities/Equity					
Accounts payable	349	364	378	670	625
Current portion of LT debt	77	65	88	83	100
Total current liabilities	753	840	964	1,284	1,335
Long-term debt	933	961	1,280	1,324	1,221
Stockholders' equity	943	1,104	1,433	1,390	1,679
Key financial ratios					
Current ratio	1.5	1.7	1.9	1.5	1.6
Quick ratio	1.4	1.5	1.8	1.6	1.6
Leverage ratio	6.7	2.3	2.2	2.1	N/A

[1] These are balance sheet highlights. Certain line items have been excluded.

Rating Guide



Credit Quality

Rating	Credit Quality
0 – 1	Deficient
1 – 3	Unsafe
3 – 5	Poor
5 – 7	Fair
7 – 9	Good
9 – 10	Excellent

This rating is based on an analysis of a company’s key financial documents and business fundamentals, as well as comparative data drawn from the Alliance Group’s proprietary Tenant Index of more than 6,000 companies that reside in our research database. In our peer group studies, IndexSearch software is used to categorize and weigh companies by size, industry, risk levels, and other key factors to narrow the peer group and insure a meaningful group of comparable companies.

Michael F. Calhoun has 25 years of experience in financial analysis, business management and corporate evaluation. He is President of The Alliance Group, a consulting firm specializing in corporate due-diligence studies, acquisition searches, business valuations and investment analysis services. Mr. Calhoun is a former investment analyst for both the Dreyfus Corporation and Oppenheimer Management.