Dycom Industries

**2023 10-K**

**Primary Operation**

Dycom Industries is a leading provider of specialty contracting services to the telecommunications infrastructure and utility industries throughout the United States. Has been expanding its scope organically and through acquisitions. Today, Dycom is made up of more than 40 operating companies that serve a diverse customer base across 49 states from hundreds of field offices.

**Business Segments**

Engineering Services. We provide engineering services to telecommunications providers, including the planning and design of aerial, underground, and buried fiber optic, copper, and coaxial cable systems that extend from the telephone company hub location, or cable operator headend, to a consumer’s home or business. We also plan and design wireless networks in connection with the deployment of new and enhanced macro cell and new small cell sites.

Construction, Maintenance, and Installation Services. Including the placement and splicing of fiber, copper, and coaxial cables. We also provide tower construction, lines and antenna installation, foundation and equipment pad construction, small cell site placement for wireless carriers, and equipment installation and material fabrication and site testing services. In addition, we provide underground facility locating services for various utility companies, including telecommunications providers. Our underground facility locating services include locating telephone, cable television, power, water, sewer, and gas lines. In addition, we install and maintain customer premise equipment, such as digital video recorders, set top boxes and modems, for cable multiple system operators and others. We also perform construction and maintenance services for electric and gas utilities and other customers.

**Business Strategy**

Industry Transition:

1. Increased demand for network telecommunications bandwidth that is necessary to ensure reliable video, voice, and data services.
2. Developments in consumer and business applications within the telecommunications industry, including advanced digital and video service offerings, continue to increase demand for greater wireline and wireless network capacity and reliability.
3. Wireless carriers are upgrading their networks and contemplating next-generation mobile solutions in response to the significant demand for wireless broadband, driven by the proliferation of smartphones, mobile data devices and other advances in technology.

Competition & Market Share:

1. Providing high-quality services and the ability to provide those services nationally
2. Operating structure and multiple points of contact within customer organizations positions us favorably to win new opportunities and maintain strong relationships with our customers
3. Able to address comper customer opportunities due to our significant financial resources that some of our comparatively more capital-constrained competitors may be unable to take on

Acquisitive Growth Strategy:

We generally target companies for acquisitions that have defensible leadership positions in their market niches, the opportunity to generate profitability that meets or exceeds industry averages, proven operating histories, sound management and certain clearly identifiable cost synergies.

**Customer & Revenue Composition**

Our customer base is highly concentrated, with our top five customers during fiscal 2024, fiscal 2023, and fiscal 2022, accounting for approximately 57.7%, 66.7%, and 66.2%, of our total contract revenues, respectively.

During fiscal 2024,

we derived approximately 16.9% of our total contract revenues from AT&T Inc., 15.6% from Lumen Technologies Inc., 10.7% from Comcast Corporation, 9.0% from Verizon Communications, Inc., and 5.5% from another customer. Believe a substantial portion of contract revenue will continue to come from a concentrated group of customers, and the percentage from the top 5 will fluctuate.

90% are long-term contracts, gained from competitive bidding process

**Cyclicality & Seasonality**

Factors affecting our customers and their capital expenditure budgets include, but are not limited to, overall economic conditions, including the cost of capital, the introduction of new technologies, our customers’ debt levels and capital structures, our customers’ financial performance, and our customers’ positioning and strategic plans.

Adverse weather, which is more likely to occur with greater frequency, severity, and duration during the winter, as well as reduced daylight hours, impact our operations during the fiscal quarters ending in January and April.

Additionally, extreme weather conditions such as major or extended winter storms, droughts and tornados, and natural disasters, such as floods, hurricanes, tropical storms could also impact our ability to perform our services

Because of these factors, we are most likely to experience reduced revenue and profitability or losses during the fiscal quarters ending in January and April compared to the fiscal quarters ending in July and October.

**Backlog**

Our backlog is an estimate of the uncompleted portion of services to be performed under contractual agreements with our customers and totaled $6.917 billion and $6.141 billion at January 27, 2024 and January 28, 2023, respectively. We expect to complete 57.3% of the January 27, 2024 total backlog during the next 12 months.

Contract revenue estimates reflected in our backlog can be subject to change due to a number of factors, including contract cancellations or changes in the amount of work we expect to be performed, and may be realized at different periods.

**Competition**

The specialty contracting services industry is highly fragmented and includes a large number of participants. Relatively few barriers to entry exist, as a result, any organization that has adequate financial resources, access to technical expertise, and the necessary equipment may become a competitor.

The principal competitive factors for our services include geographic presence, quality of service, worker and general public safety, price, breadth of service offerings, and industry reputation. We believe that we compare favorably to our competitors when evaluated against these factors.

**Subcontractor and Materials**

We contract with subcontractors to perform a significant amount of our work and to manage fluctuations in work volumes and to reduce the amount we expend on fixed assets and working capital. (included in COGS) No individual subcontractor is financially significant to the Company.

For a majority of the contract services we perform, we are provided the majority of the required materials by our customers. We do not include the costs associated with those materials in our contract revenues or costs of earned revenues. Under contracts that require us to supply part or all of the required materials, we typically do not depend upon any one source for those materials.

**Risk Factors**

1. Economic Conditions//Macroeconomic conditions, including inflation, slower growth or recessionary conditions, changes to fiscal and monetary policy, availability of credit, and interest rates (cost of capital of customers) could materially adversely affect demand for our services and the availability and cost of the materials and equipment we need to deliver our services.
2. Loss of Major Customers//Switch to competitors.
3. Seasonality and Extreme Weather Conditions
4. Canllation or Timing of Realization of Backlog
5. We derive a significant portion of our revenues from multi-year F service agreements and other long-term contracts which our customers may cancel at any time or may reschedule or modify previously assigned work. The majority of our long-term contracts are cancellable by our customers with little or no advance notice and for any, or no, reason. Our customers may also have the right to cancel or remove assigned work without canceling the contract or to reschedule or modify previously assigned work
6. Our profitability is based on delivering services within the estimated costs established when we price our contracts (FIXED PRICED CONTRACTS)//A variety of factors could negatively impact the actual cost we incur in performing our work, such as changes made by our customers to the scope and extent of the services that we are to provide under a contract, delays resulting from weather, conditions at work sites differing materially from those anticipated at the time we bid on the contract, higher than expected costs of materials (discussed above) and labor, delays in obtaining necessary permits, under absorbed costs, and lower than anticipated productivity. An increase in costs due to any of these factors, or for other reasons, could adversely affect our results of operations.
7. Changes in fuel prices may increase our costs, and we may not be able to pass along increased fuel costs to our customers.

**Acquisitions**

FY2024: Acquired Bigham Cable Construction, $131.2 million

FY2023: Acquired assets of Construction Company worth $0.4 million

**Walk Through P&L**

Cost of Earned Revenue:

Wage costs, Services of Subcontractors, Operation of Capital Equipment (ex. Depreciation), direct materials, etc.

Other Income, Net:

Primarily consists of gains or losses from sales of fixed assets

**August 2024 Investor Presentation**

FY2024 organic revenue growth: 6.9%

Total Backlog of $6.834 billion as of Q2 2025

In August 2024, Dycom acquired Black & Veatch’s public carrier wireless telecommunications infrastructure business for $150 million in cash:

Expect acquisition to contribute $250 million to $275 million of contract revenues with post-integration EBITDA margins in line with our consolidated average in FY2026

Expect this acquisition to add approximately $1.0 billion of total backlog, which we will reflect in our Q3 2025 report

**Telecommunication Industry Overview**

**Tailwinds:**

1. **Fiber to home deployments continue to increase**

Fiber deployment capex continues to increase

• We are pleased that a number of our customers have entered into strategic transactions and refinancings intended to fund incremental fiber deployments over the next several years

1. **Govt spending**

Broadband, Equity, Access, and Deployment (BEAD) program, Rural Digital Opportunity Fund (RDOF), and American Rescue Plan (ARPA) combined provide over $70 billion in funding for deploying high-speed internet access in rural America

1. **Wireless providers implementing network upgrade**
2. **AI driving demand for network deployments**

AI data centers has sparked the highest level of interest in national deployments of high-capacity low latency intercity networks we have seen in the last 25 years

**Dycom Industries Q4 Transcript**

* Fiber infrastructure for hyper-scalers continues. Lumen award related to the long-haul overpull work commenced in the fourth quarter and has begun ramping in Q1.
* Customer dialogue around AI digital infrastructure needs remains robust. Two ISPs recently announced their intent to build a total of more than 5,100 long haul fiber route miles. (other than Lumen)
* Maintain our belief that the most significant revenue opportunities for the long-haul market will occur in calendar 2026 and beyond.
* Expect fiscal 2026 total revenue to increase 10% to 13% over fiscal 2025.
* Opportunities from BEAD are not included in our fiscal 2026 outlook. Storm restoration revenue was $114.2 mln in FY25. No storm restoration service is included in the FY26 guidance.
* Revenues in the quarter were driven by continued execution of fiber-to-the-home programs, maintenance and operations services for customers, initial revenue contribution from fiber infrastructure programs for hyperscalers and $67.9 million of storm restoration revenues. (almost all the organic growth for the quarter comes from here)
* Backlog at the end of Q4 was $7.76 billion, including $4.642 billion. That is expected to be completed in the next 12 months
* The combined DSOs of accounts receivable and contract assets were 114 days, a reduction of 6 days compared to 120 days in Q4 2024.
* Repaid $155 million of revolver borrowings and repurchased 200,000 shares of our common stock for $35.9 million, bringing our total repurchases for the year to 410,000 shares for $65.6 million.
* This week, our board of directors approved a new $150 million authorization for share repurchases through August 2026. This authorization replaces the remaining amount from our prior authorization.
* Glad that we're in there at the beginning, but we see this playing out over a multiyear period. (on AI infrastructure)
* Not seeing downward pressure on margin for FY26. However, no guidance provided
* On Q4 organic. Excluding the storm restoration service, the organic growth was near 0%, but guided low-mid single digit organic growth for Q4. Management said it has no insight into storm when giving the guidance. However, there was a fire in California and snow in Orlean, both were unexpected. Result was a mixture of both.
* We think that's going to be at least five years of opportunity and we'll have to see how the TAM plays out exactly. There's been industry reports out there talking about $100 billion of addressable market over a five or so year period.
* Expect FY27’s revenue growth continues to ramp
* Q1 cash flow is better than normal seasonality (low cash flow) given the Q4 storm work.
* It was $60 million just over $68 million (gross Capex for the quarter)
* On BEAD: the first is, we're having a lot of conversations both with the potentially awarded subgrantees and also contingent with the state broadband offices. There's a little bit of a pause for some of the subgrantees that are waiting for the final – for their awards to be finalized. We'll see exactly what that timeline plays out as the new administration puts their fingerprints on the program. Expect some potential for the back half of FY26, more likely for Calander Year 2027.
* No BEAD into backlog. All the potential customers are not at a place to issue awards.

**Dycom Industries Q3 Transcript**

* G&A this quarter included incremental stock-based compensation of $7.1 million related to the CEO transition and acquisition integration costs of $4.2 million related to the Q3 2025 acquisition. Excluding these amounts, non-GAAP G&A expenses were 7.8% of revenue compared to 7.7% in Q3 2024.
* expect total contract revenues to increase mid- to high-single digit as a percentage of contract revenues
* approximately $35 million of revenues from acquired businesses
* organic revenues are expected to increase low- to mid-single digit as a percentage of contract revenues
* For Q4 2025, we expect non-GAAP adjusted EBITDA percentage of contract revenues to increase approximately 25 basis points compared to 9.8% in Q4 2024
* Other: $9.9 million of amortization expense, $9.3 million of stock-based compensation, which includes $2.1 million of incremental expense related to the CEO succession transition, $16.5 million of net interest expense, a 26% non-GAAP effective income tax rate, and 29.5 million diluted shares.
* Lumen & AI: had a new award this quarter, not much, but expect to be a good start as having more conversation with other customers.
* BEAD: Still expect to be second half of Calander Year 2025, expect significant ramp in 2026.
* Louisiana state BEAD announcement: 95% being Fiber ($1 bln+).
* See revenue from Top 10 companies as guide, not Top 5.
* Trump Administration: Expect same level of support, bipartisan effort.
* $4.2 mln integration costs related to acquisition.
* $46 mln storm restoring services in Q3, not reflecting that in Q4, expect to taper off. (but, storm also affect DY’s operation in Q3, tradeoff)
* SG&A into FY26: Non-GAAP slightly up yoy, expect DY to get some operating leverage out of SG&A.
* In the past, SG&A increases (not as a % of rev.) to anticipate revenue ramp. The management didn’t deny/confirm this trend by replying we’ll work hard to management that.
* Elon & Starlink: Alternative Tech. would play a role in BEAD for some homes. But expect Louisiana as a good guide (95% being fiber). All 50 states are through phase 2 now, very unlikely to be cancelled/changed, but will learn a lot in the years ahead.

**Dycom Industries Q2 Transcript**

* As we deployed gigabit wireline networks, wireless/wireline converged networks and wireless networks, this quarter reflected an increase in demand from three of our top five customers.
* In August, acquired Black & Veatch’s public carrier wireless telecommunications business for $150 mln, DY’s largest ever wireless services acquisition.
* Modest Revenue anticipated during the next two quarters of FY25, as the business is focused on site acquisition for next year’s construction program. For FY26, expect acquisition to contribute $250 to $275 million of revenue with post-integration EBITDA margin in line with average.
* Add $1 bln total backlog, will be reflected in Q3
* The advent of AI data centers has sparked interest in broad new national deployments of high capacity, low latency intercity networks as well as metro rings. The level of interest in intercity networks is the highest we have seen in the last 25 years.
* We are pleased that a number of our customers have entered into strategic transactions, including refinancings, intended to provide the capital necessary for the incremental deployment of fiber to more than 9.5 million homes over the next several years. These individual transactions are currently awaiting regulatory approval, which is currently expected over the next 12 to 18 months.
* For planning purposes, we currently expect to see BEAD opportunities during the third quarter of calendar year 2025.
* the market for labor has improved in many regions around the country. Automotive and equipment supply chains have normalized, and prices for capital equipment have been stable since the first of the year.
* Backlog at the end of the second quarter was $6.834 billion versus $6.364 billion at the end of the April 2024 quarter, an increase of $470 million. Of this backlog, approximately $3.83 billion is expected to be completed in the next 12 months.
* G&A this year included incremental stock-based compensation of $2.2 million related to the CEO succession transition.
* During Q2, we acquired a telecommunications construction contractor for $20.8 million net of cash acquired, expanding our geographic footprint to Alaska
* Expect total contract revenues to increase mid to high single digit as a percentage of contract revenues compared to $1.136 billion in Q3 2024. Included in the expectation for the current quarter is approximately $75 million of acquired revenues compared to the prior year period that included $45.2 million of acquired revenues and $26.5 million of revenues from the impacts of a change order and the closeout of several projects.
* AI opportunities: has yet to be materialized. Intercity network seems to have bullish opportunities, and Dycom has the experience there (however, DY is more about intracity, which would have impact later).
* No BEAD has been built into the $500 mln increase in backlog. Expect BEAD to take effect next year, midyear or beyond.
* Presidential election’s effect on BEAD:

BEAD was passed with 69 votes in the Senate (total of 100), seen as a bipartisan effort. Support for rural fiber is both deep and irreversible.

* Cut of organic growth from 9% in Q2 to maybe half of that in Q3: 1. Cut 45 mln acquired rev and impact of closeout (26 mln) and 75 mln from this year would get to the same overall organic growth of high-single digit. Won’t have that 26 mln every quarter, one-time event. 2. Wet August. But seen approval and accelerated pace on BEAD. Will have real activity within a year
* For AI opportunities, check out announcement between Lumen and Microsoft and then the subsequent supply announcement by Corning
* Luman AI Fiber build: Dyson has completed 2000 miles of these projects before, expect accelerated growth with similar or higher margin
* Broadly distributed growth (organic & acquisitive) is helpful to EBITDA margin expansion. (operating costs,G&A)
* AI opportunities: LOOK AT COMMENTS FROM LUMEN. More AI projects ahead.
* Wireless services 3% of rev, down 12% over year
* I think we'll see impacts in the business timing, whether it's third quarter, beginning of fourth quarter (Calendar year 2025, BEAD)

**Dycom Industries Q1 Transcript**

* 1. continue to roll out a number of technologies to simplify the field administration of the business, to focus on increased productivity. 2.(most) broad geographic and customer diversification, that we get good operating leverage. =>> EBITDA Margin expansion
* Further on margin: 1) I mean, clearly, when you get good organic growth and you get broadly distributed growth across customers and geographies, that's your best recipe for comp 2) given the scale of the enterprise now and it's our geographic coverage, we work hard to make sure that we're committing resources to customers in areas where we can perform for them and for ourselves 3) making investments in technology at scale
* Effective tax rate outlook: 26.5%
* Further on BEAD: when last mega program like this was carried out, Dycom did about 8%-9% of the entire program, and therefore huge opportunities.

**September 18, Davidson Diversified Industries & Services Conference**

* when investment-grade capital gets to access growth opportunities, that's a good thing for us. Mention of (T-Mobile committing capital to Metronet and Lumos and others, when you see Verizon being able to come in and refinance the debt stack over time at Frontier, all of that drives more potential capital spending)
* About competition: Will be very fierce and intense. But, the benefit of scale and focus is that we understand the issues that are going to come up along the way. And we have the folks in the field that know how to manage those more successfully than others.
* Low leverage on the balance sheet is crucial for further acquisition.
* Don’t expect wireless business to be as significant as wireline. See huge opportunity ahead for wireline. i.e. BEAD.
* About AI: it all comes down to latency. (And so even in areas where you might have connectivity today that's sufficient on an intercity route that goes from City A to City B to City C, if there's an A to C route that's shorter and has lower latency, that may be considered today that a year ago, five years ago, everybody would have said, I can get from Chicago to Denver. I'm not worried that I'm going through St. Louis instead of Des Moines. And all of a sudden now, because of latency budgets around these AI applications, that's becoming a consideration that we're seeing people talk about.)
* Lumen expects AI to be as huge as BEAD ($60 bln)
* On margin: operating leverage potential associated with kind of revenue density per square mile, especially with vendor consolidation, that would seem to be in your favor.
* Well, I think you have to think about it in two segments, right? So, revenue density in urban and suburban America is certainly something that's for real, right? So, if we've been a long time supplier of master contract services in a geographic area, and that customer kicks off a fiber program, we have infrastructure in place in terms of warehousing and offices and leadership, as well as support staff that we can leverage. And the growth on those lines typically is not quite as great as the revenue lift when that customer kicks off that program. And that's something that we've seen for a number of years.

**(**In rural America, typically, you're not going to be working for multiple customers because the way the arithmetic works is, you build a network, and it's not going to be economic for the second provider to build that same route. Now, that may change. I mean, we had one customer that I thought made a very astute comment last week at a conference that if you're in a high-growth state like Texas or Florida or Western North Carolina or – think about those states, and you may be starting thinking, you're building eight homes to the mile. But in 15 years, when that's 20 homes to the mile, when it's 40 homes to the mile, all of a sudden, that investment initially went – and might have been borderline, is going to make an awful lot of sense.KPI

And so I just think that those kind of opportunities, as the country builds out around the edges of urban and suburban America into rural, I think that's great opportunities for growth and maintenance activity because when it goes from 8 homes to the mile to 40 homes to the mile, there's going to be a lot of pickup in activity on a routine basis.**)**

**Stifle Cross Sector Conference, June 2024**

* We had the same questions when the company was much smaller in 2009. This is a big at – biggest program ever at $6.5 billion. And at the end of the day, we were able to grow through that opportunity as well as the industry, and I think that we'll be able to do that again**.** (8%-9%)
* we always think about the biggest driver to margin is operating leverage

And in order for that to be at its best, you want broadly distributed organic growth. So – and we've had periods of time when this happened. Just sometimes it works out that way. If you have a couple of key customers that are very aggressively growing, up 50% or 100% in a year, but the rest of the book of the business is not as healthy and it is flat to declining, that's not a good mix for good operating leverage. If you look at last year and you took these two key customers out, everybody else grew at 24.8% and so that helps with operating leverage. So, there's always operating leverage.

New Street Research Conference, March 2024

* I mean, we did huge inner office fiber projects in the mid-1990s to the early 2000s to tie central offices together. And then, there's been a lot of investment subsequently. So seeing investment on top of those networks in areas that we already serve is a good thing. (on revenue density)
* Yeah. So at this – at our scale now, and that doesn't mean we have ubiquitous geographic coverage, but in most of major metropolitan areas, maybe not so much New York and Chicago, but pretty much everywhere else. We've got existing facilities. And so we always look forward to the opportunity to increase our revenue density so that if we're there in a maintenance relationship or routine business as usual, if we can add a fiber program into that footprint, that allows us to kind of leverage that geography and those – and that infrastructure. Not only – not just physical, but the knowledge of the permitting relationships, the local DOT. All of the things that you have to be able to navigate well to succeed. So...

On Competition:

Yeah, I mean, typically, we're competing with other outsource providers of the same service. There are divisions of larger public peers that are more diversified that compete to some degree with us. I would think if we were just doing a census, and we looked at who we're generally competing with, these are smaller private companies. Some will serve just a single region of the country. Others will serve a couple regions. We typically don't run into somebody that serves the East Coast and then jumps across the country and sets up shop in California. So they tend to be more regional.

Decline of margin seen in FY19 and FY20:

Absorption question as we have a number of programs that are in their early phases, that's really driving the pressure on the margins. (under absorption of labor and field costs) we have several large programs, some of which require extensive permitting and other governmental authorities. Uncertainty in permitting processes with these mega programs, lots of agencies involved. (slower start on the program as well)

I think in part that's going to be fuel-driven. So if you look back at where the price of gas was a year ago, that certainly ticked up some. And then it's really, as we talked about last quarter, there's certain customers that have spent less this year than last year.

Potential Improvement ahead:

And historically, as we get broader growth across the top five customers as well as all other that gives us a good opportunity to generate operating leverage.

2009

Q1 2012: 16.6% organic growth

Q2 2012: 19.2% organic growth (10.1% ex. 2009)

Q3 2012: 17.3% organic growth (8.2% ex. 2009)

Q4 2012: 9% organic growth (1.9% ex. 2009)

**Catalyst**:

**BEAD Program under IIJA ($40 bn)**

States are progressing through the requirements to submit their initial BEAD proposals. For the construction of rural communications networks in unserved and underserved areas.

8