

April 4, 2024

PRIMORIS SERVICES CORPORATION | PRIM

Buy

Introduces Solid 2024–2026 Projections in NYC; Raising Target to \$60

PRICE \$45.53

PRICE TARGET \$60.00

KEY TAKEAWAY

Yesterday, Primoris hosted its first analyst day in seven years, issuing three-year financial targets that were above expectations. For 2024–2026, the company is targeting a revenue CAGR of 4%–6%, gross profit of 9%–12%, and adjusted EBITDA of 9%–12%. By comparison, for 2024–2025, we forecast a revenue CAGR of 5%, gross profit of 8%, and EBITDA of 7%. For now, our revenue, gross profit, and EBITDA forecasts are unchanged; however, we are increasing our 2024 free cash flow estimate from \$82M to \$127M and 2025 from \$97M to \$202M. We are increasing our 12-month price target from \$45 to \$60 (9.4x 2025 EV/EBITDA).

Engineering & Construction

ADAM R. THALHIMER, CFA

(804) 644-9949

athalhimer@thompsondavis.com

KEVIN GAINEY

(804) 644-6389

kgainey@thompsondavis.com

KEY POINTS

Introduces solid three-year financial targets. Yesterday, we attended Primoris' 2024 analyst day in New York. It was the company's first analyst day in seven years. From 2018–2022, PRIM integrated three large acquisitions (Willbros, Future, and PLH) and realigned its business into three segments (Utilities, Renewables, and Energy). Our sense is that management is genuinely upbeat about its potential to deliver improved financial results over the next three years.

From 2024–2026, the company is targeting a revenue CAGR of 4%–6%, gross profit of 9%–12%, and adjusted EBITDA of 9%–12%, excluding acquisitions. Management projects an operating cash flow margin of 4%–5% by 2026 (versus 3.5% in 2023). Net leverage is targeted at 1.5x versus 2.0x at the end of 2023.

Our estimates appear conservative versus 2024–2026 targets. For 2024–2025, we forecast a revenue CAGR of 5%, gross profit of 8%, and EBITDA of 7%. While our revenue forecast is within the multiyear range provided yesterday, our gross profit and EBITDA expectations are below. For now, we are leaving our estimates unchanged as it is early in the year (and early in the three-year forecast period). Also, our 2024 EBITDA forecast of \$406M is already above consensus of \$395M.

Raising cash flow expectations materially. While our revenue, gross profit, and EBITDA estimates are unchanged, we do view our old cash flow expectations as overly conservative. Previously, we were forecasting an operating cash flow margin of 2.5% in 2024 and 2.9% in 2025. We are increasing our 2024 forecast to 3.2% and 2025 to 4.3%. *Our 2024 free cash flow forecast goes from \$82M to \$127M (\$2.31/sh) and 2025 from \$97M to \$202M (3.61/sh).*

Power delivery and renewables to drive multiyear growth. Management forecasts power delivery sales to grow at a 4%–6% CAGR in 2024–2026 and noted a current project funnel of \$100B+. Last year, Primoris generated \$1.3B from solar projects (23% of total revenue). Looking out over the next three years, the company forecasts solar revenue growth of \$300M–\$400M *per year*. Note that we currently forecast total sales growth of \$310M in 2024 and \$275M in 2025.

Raising price target to \$60; Buy. Excluding Primoris, the specialty contractors in our coverage universe currently trade at 14.3x 2024 EV/EBITDA, on average (see **Figure 1** on page 2). Primoris currently trades at 7.9x. We are increasing our price target from \$45 to \$60, which is based on 9.4x our 2025 EV/EBITDA forecast. Even this would represent a sizable discount to Primoris' peers, in our view.

COMPANY STATISTICS

52-Week Range	\$23.48-\$45.56
Market Capitalization (M)	\$2,276
Average Daily Volume (000s)	558
Debt/Total Cap	44%
Dividend	\$0.24
Shares Outstanding (M) fd	54.4
Estimated 3-yr EPS Growth	12%
Enterprise Value (M)	\$3,217
Float (M)	53.7

FINANCIALS

FYE Dec	2022A	2023A	2024E	2025E
P/E Ratio	17.8x	16.0x	14.5x	12.5x
EV/EBITDA	11.4x	8.5x	7.9x	7.4x
Revenue (M)	\$4,421	\$5,715	\$6,025	\$6,300
Op Inc (M)	\$195	\$253	\$280	\$312
EBITDA (M)	\$283	\$379	\$406	\$436
EPS				
Q1	\$0.01	\$0.18	\$0.20	\$0.22
Q2	\$0.48	\$0.80	\$1.01	\$1.13
Q3	\$1.12	\$1.02	\$1.06	\$1.24
Q4	\$0.93	\$0.85	\$0.86	\$0.98
Total	\$2.56	\$2.85	\$3.14	\$3.56
Consensus	—	—	\$3.02	\$3.47

Consensus estimates from Visible Alpha

Thompson Davis & Co., Inc.
9030 Stony Point Parkway | Suite 100
Richmond, VA | 23235
Main: (804) 644-6380

Please see analyst certification and important disclosures on page 4 of this report.

Valuation. On an EV/EBITDA basis, Primoris is currently trading at 7.9x our 2024 adjusted EV/EBITDA estimate. Our \$60 12-month price target is based on 9.4x our 2025 EV/EBITDA estimate, thus assuming multiple expansion. We believe that the company's success in solar construction and growth in the electrical T&D sector could support multiple expansion, along with continued solid results.

As shown in **Figure 1**, Primoris currently trades at a steep discount to other specialty contractors in our coverage universe. As the company's margin and free cash flow profile improve, we believe that the gap can narrow.

Figure 1. Primoris Comp Table, Shares Appear Undervalued

Company	Symbol	Price	TD&Co.		Current Year Estimates		Next Year Estimates	
			Rating	Target	EV/EBITDA	P/E	EV/EBITDA	P/E
Primoris Services	PRIM	\$45.53	Buy	\$60	7.9x	14.5x	7.4x	12.8x
Comfort Systems	FIX	\$320.56	Buy	\$325	19.0x	30.1x	16.8x	25.1x
Construction Partners	ROAD	\$57.88	Buy	\$55	16.5x	46.5x	14.5x	38.4x
Dycom Industries	DY	\$141.29	Buy	\$165	8.8x	18.8x	8.0x	16.3x
EMCOR Group	EME	\$362.41	Buy	\$350	15.5x	25.1x	14.6x	23.5x
MasTec	MTZ	\$95.01	Buy	\$100	10.6x	37.6x	9.5x	25.2x
Quanta Services	PWR	\$255.54	Buy	\$250	18.7x	31.0x	17.0x	27.1x
Sterling Infrastructure	STRL	\$107.62	Buy	\$130	11.1x	21.5x	9.9x	18.7x
Average (ex. Primoris)					14.3x	30.1x	12.9x	24.9x

Source: Company reports, Thompson Davis & Co.

Risks. Risks to the stock and to the achievement of our price target include macro-economic weakness, weather-related project disruptions, and the potential impact of higher interest rates on construction spending. Primoris has been acquisitive, and we believe that M&A remains a priority for the company. Integration challenges and/or acquired problem projects could negatively impact results.

Primoris Services
Earnings Model

Adam R. Thalhimer, CFA - athalhimer@thompsondavis.com - (804) 644-9949
Kevin Gainey - kgainey@thompsondavis.com - (804) 644-6389

(\$ millions)	2023A					2024E					2025E				
	Mar	Jun	Sep	Dec	Dec	Mar	Jun	Sep	Dec	Dec	Mar	Jun	Sep	Dec	Dec
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenue	\$1,256.9	\$1,413.4	\$1,529.5	\$1,515.6	\$5,715.3	\$1,350.0	\$1,575.0	\$1,600.0	\$1,500.0	\$6,025.0	\$1,375.0	\$1,650.0	\$1,700.0	\$1,575.0	\$6,300.0
Cost of revenue	1,157.2	1,256.1	1,355.6	1,359.0	5,127.8	1,238.8	1,395.4	1,417.8	1,331.5	5,383.4	1,258.9	1,458.5	1,498.5	1,395.0	5,610.9
Gross profit	99.7	157.3	173.9	156.6	587.5	111.3	179.6	182.3	168.5	641.6	116.1	191.5	201.5	180.0	689.1
SG&A	80.7	86.5	85.5	81.8	334.4	85.0	92.0	92.0	92.5	361.5	90.0	95.0	97.5	95.0	377.5
Operating income	19.0	70.8	88.4	74.8	253.1	26.3	87.6	90.3	76.0	280.1	26.1	96.5	104.0	85.0	311.6
Income from non-consolidated inv.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange gain (loss) & other	1.3	1.1	0.5	(0.1)	2.7	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0
Interest income (expense), net	(18.5)	(16.9)	(21.1)	(21.7)	(78.1)	(21.2)	(20.5)	(19.7)	(19.0)	(80.4)	(18.5)	(18.0)	(17.5)	(17.0)	(70.9)
Pre-tax income	1.8	55.0	67.8	53.0	177.7	5.5	67.6	71.0	57.5	201.7	8.1	79.0	87.0	68.5	242.7
Provision for income taxes	0.5	16.0	19.7	15.4	51.5	1.6	19.6	20.6	16.7	58.5	2.4	22.9	25.2	19.9	70.4
Net income	1.3	39.0	48.1	37.7	126.1	3.9	48.0	50.4	40.8	143.2	5.8	56.1	61.8	48.7	172.3
Noncontrolling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income to Primoris	1.3	39.0	48.1	37.7	126.1	3.9	48.0	50.4	40.8	143.2	5.8	56.1	61.8	48.7	172.3
EPS (cont. ops.)	\$0.02	\$0.72	\$0.89	\$0.69	\$2.33	\$0.07	\$0.88	\$0.91	\$0.74	\$2.60	\$0.10	\$1.00	\$1.10	\$0.86	\$3.08
Shares outstanding (diluted)	53.9	54.3	54.4	54.4	54.3	54.6	54.9	55.1	55.4	55.0	55.6	55.9	56.1	56.4	56.0
Non-cash stock based compensation	\$2.4	\$3.0	\$3.6	\$2.9	\$11.8	\$3.0	\$4.0	\$5.0	\$3.5	\$15.5	\$3.5	\$4.5	\$5.5	\$4.0	\$17.5
Transaction and integration costs	2.7	0.9	1.1	1.0	5.7	1.3	1.3	1.0	1.0	4.5	0.0	0.0	0.0	0.0	0.0
Amortization costs	6.1	5.4	5.2	5.2	21.8	5.4	5.4	5.4	5.4	21.6	5.3	5.3	5.3	5.3	21.0
Other	0.7	(3.2)	0.1	3.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax impact of adjustments	(3.3)	(1.8)	(2.9)	(3.6)	(11.5)	(2.8)	(3.1)	(3.3)	(2.9)	(12.1)	(2.5)	(2.8)	(3.1)	(2.7)	(11.2)
Adjusted net income from cont. ops.	\$9.9	\$43.4	\$55.2	\$46.4	\$154.8	\$10.8	\$55.6	\$58.5	\$47.9	\$172.8	\$12.0	\$63.0	\$69.4	\$55.2	\$199.7
Adjusted EPS (cont. ops.)	\$0.18	\$0.80	\$1.02	\$0.85	\$2.85	\$0.20	\$1.01	\$1.06	\$0.86	\$3.14	\$0.22	\$1.13	\$1.24	\$0.98	\$3.56
Shares outstanding (diluted)	53.9	54.3	54.4	54.4	54.3	54.6	54.9	55.1	55.4	55.0	55.6	55.9	56.1	56.4	56.0
Depreciation and amortization	\$27.7	\$27.0	\$26.7	\$25.6	\$107.0	\$25.9	\$25.9	\$25.9	\$25.9	\$103.6	\$26.3	\$26.3	\$26.3	\$26.3	\$105.0
EBITDA (GAAP)	48.0	98.9	115.6	100.4	362.9	52.7	114.0	116.7	102.4	385.7	52.9	123.3	130.8	111.8	418.6
Non-cash stock based compensation	2.4	3.0	3.6	2.9	11.8	3.0	4.0	5.0	3.5	15.5	3.5	4.5	5.5	4.0	17.5
Transaction and integration costs	2.7	0.9	1.1	1.0	5.7	1.3	1.3	1.0	1.0	4.5	0.0	0.0	0.0	0.0	0.0
Other	(0.2)	(0.4)	(0.2)	(0.1)	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA (Adjusted)	\$52.8	\$102.4	\$120.0	\$104.2	\$379.4	\$56.9	\$119.3	\$122.7	\$106.9	\$405.7	\$56.4	\$127.8	\$136.3	\$115.8	\$436.1
Percent of sales:															
Gross margin	7.9%	11.1%	11.4%	10.3%	10.3%	8.2%	11.4%	11.4%	11.2%	10.6%	8.4%	11.6%	11.9%	11.4%	10.9%
Operating margin	1.5%	5.0%	5.8%	4.9%	4.4%	1.9%	5.6%	5.6%	5.1%	4.6%	1.9%	5.8%	6.1%	5.4%	4.9%
Pre-tax margin	0.1%	3.9%	4.4%	3.5%	3.5%	0.4%	4.3%	4.4%	3.8%	3.3%	0.6%	4.8%	5.1%	4.4%	3.9%
Net margin (cont. ops.)	0.1%	2.8%	3.1%	2.5%	2.2%	0.3%	3.0%	3.2%	2.7%	2.4%	0.4%	3.4%	3.6%	3.1%	2.7%
Adjusted EBITDA margin	4.2%	7.2%	7.8%	6.9%	6.6%	4.2%	7.6%	7.7%	7.1%	6.7%	4.1%	7.7%	8.0%	7.3%	6.9%
SG&A as a % of sales	6.4%	6.1%	5.6%	5.4%	5.9%	6.3%	5.8%	5.8%	6.2%	6.0%	6.5%	5.8%	5.7%	6.0%	6.0%
Tax rate	28.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%	29.0%
Yr/Yr change:															
Revenue	60.2%	38.2%	19.1%	14.0%	29.3%	7.4%	11.4%	4.6%	(1.0%)	5.4%	1.9%	4.8%	6.3%	5.0%	4.6%
Gross profit	76.6%	70.7%	12.3%	2.1%	28.6%	11.5%	14.2%	4.8%	7.6%	9.2%	4.4%	6.6%	10.6%	6.8%	7.4%
SG&A	44.7%	248.0%	(3.3%)	(11.6%)	27.9%	5.3%	6.4%	7.6%	13.1%	8.1%	5.9%	3.3%	6.0%	2.7%	4.4%
Operating income	NM	5.2%	33.0%	22.9%	29.6%	38.0%	23.8%	2.1%	1.5%	10.7%	(0.5%)	10.1%	15.2%	11.8%	11.2%
Net income	NM	(22.2%)	11.9%	(9.3%)	(5.2%)	NM	23.1%	4.7%	8.4%	13.5%	NM	16.8%	22.5%	19.1%	20.3%
Adjusted EPS	2198.4%	64.8%	(9.6%)	(8.8%)	11.6%	8.0%	26.9%	4.5%	1.4%	10.1%	9.4%	11.3%	16.5%	13.3%	13.5%
Adjusted EBITDA	133.5%	82.3%	10.2%	8.9%	33.9%	7.7%	16.5%	2.2%	2.6%	6.9%	(0.9%)	7.1%	11.1%	8.3%	7.5%

Source: Company reports and Thompson Davis & Co. estimates

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	#	%
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