

Monthly Update: Highway and Street Spending +26% in December, Best Growth in Decades

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KEY TAKEAWAY

Total construction spending surged in December (+14% yr/yr) with all sectors contributing: residential +7%, nonresidential +19%, and public +21%. Highway and street spending was up 26% yr/yr in December, the fastest growth rate in more than 20 years! Beneath the surface, we are mildly concerned about nonresidential leading indicators. Nonresidential construction starts declined 8% yr/yr in 2023, and the ABI has registered below 50 for five straight months. To the positive, residential indicators are improving, with single-family starts and permits both up 15% yr/yr in H2'23, on average. We are broadly bullish heading into our Q4'23 earnings season; our 2024 expectations are above consensus for DY, EME, FIX, NOA, and PRIM.

KEY POINTS

Upgrading our residential outlook to positive. We have been watching the improvement in residential leading indicators during H2'23 and are finally upgrading our sector outlook to positive. Single-family permits increased a robust 33% yr/yr in December 2023, on a seasonally adjusted rate. Last month, we initiated coverage on Quanex Building Products with a Buy rating and a \$40 12-month price target. Part of our bullish thesis was our expectation that the company was nearing the end of a downcycle. *Recent data appears supportive.*

Figure 1. Coverage End-Market Outlook

Highway	↑	Spending increased 26% yr/yr in December, the 18th straight double-digit gain
Nonresidential	↑	Leading indicators continue to weaken, still expect growth in 2024
Residential	↑	Single-family indicators strengthened in December, starts +16% yr/yr and permits +33%
Telecom	↑	We expect fiber passings to increase 9% in 2024; BEAD support coming
Electric power	↑	Electric utility capex is projected to increase 12% in 2023 and 2% in 2024
Midstream	↔	Our pipeline tracker is at 7,588 miles, down 23% yr/yr; CO2 lines could be removed
Downstream	↔	Refinery utilization was 88% in Q4'23 vs. 91% in Q4'22, service providers could benefit
Upstream	↓	Rig count continues to decline; total rigs down 18% yr/yr last week (February 2, 2024)

Source: U.S. Census Bureau, U.S. EIA, FactSet, company reports, Pipeline Intelligence, TD&Co.

- **Highway.** Highway spending was up 26% yr/yr in December. Our feature state is Georgia, which has established a \$50M fund to repay contractors for inflation-related losses.
- **Nonresidential.** Spending was +19% yr/yr in December, the 30th straight gain after 13 months of declines (June 2020–June 2021). However, the ABI averaged 46.3 in H2'23.
- **Residential.** We are raising our outlook to positive. Spending increased 7% yr/yr in December, the third straight monthly gain after ten months of declines.
- **Telecom.** Fiber passings by large carriers are projected to decline in 2023 (–11% yr/yr) before accelerating in 2024 (+9%) and 2025 (+4%). BEAD funding could impact 2025+.
- **Electric Power.** Utility capex is projected to grow 12% in 2023 after increasing 10% in 2022. This would represent the best growth period since 2015–2016 (+15% on average).
- **Midstream.** Our tracker stands at 7,588 miles, down 23% yr/yr. Note that MasTec has been awarded five mid-sized projects since mid-November 2023 (124 miles in total).
- **Downstream.** Refinery utilization averaged 88% in Q4'23, down from 91% last year. Service providers could see solid demand in Q4'23 (EME, PWR), we believe.
- **Upstream.** We maintain our negative outlook. The rig count appears to be stabilizing at a low level, but it still declined 18% yr/yr during the week of February 2, 2024.

HIGHLIGHTED COVERAGE

AECOM
ACM | \$85.50 | BUY

AZZ Inc.
AZZ | \$64.40 | BUY

CEMEX
CX | \$8.57 | BUY

Comfort Systems
FIX | \$223.24 | BUY

Construction Partners
ROAD | \$47.03 | BUY

Dycom Industries
DY | \$114.80 | BUY

Eagle Materials
EXP | \$235.88 | HOLD

EMCOR Group
EME | \$233.99 | BUY

Great Lake Dredge & Dock
GLDD | \$7.70 | BUY

Keysight Technologies
KEYS | \$154.80 | BUY

Martin Marietta Materials
MLM | \$510.72 | BUY

MasTec
MTZ | \$67.87 | BUY

North American Construction
NOA-TSE | \$29.66 | BUY

Primoris Services
PRIM | \$35.09 | BUY

Quanex Building Products
NX | \$31.07 | BUY

Quanta Services
PWR | \$200.35 | BUY

Southland Holdings, Inc.
SLND | \$4.77 | BUY

Summit Materials
SUM | \$36.58 | BUY

Vulcan Materials
VMC | \$231.51 | BUY

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METRO WEATHER TRENDS

Figure 2. January Precipitation a Headwind, Q4'23 Looks Favorable

	Oct-22	Nov-22	Dec-22	Oct-23	Nov-23	Dec-23	Jan-23	Jan-24
Albuquerque	1.58	0.14	0.64	0.00	1.00	1.01	0.31	0.33
Atlanta	1.71	4.23	3.44	1.78	2.01	3.68	7.23	6.43
Austin	1.99	3.90	1.67	6.07	1.36	2.32	1.53	6.77
Baltimore	4.66	2.44	4.80	1.13	2.80	7.16	1.68	6.77
Birmingham	2.56	5.61	4.25	0.29	0.93	4.70	8.11	6.28
Charleston	0.55	2.14	1.60	1.18	1.31	7.28	3.23	1.50
Charlotte	0.71	5.82	4.56	0.98	2.49	6.32	5.67	7.28
Chattanooga	1.63	5.89	6.10	0.29	2.86	6.19	5.57	6.47
Cheyenne	0.11	0.96	0.18	0.95	0.71	0.31	1.82	0.52
Chicago	1.66	0.86	2.16	2.28	0.86	2.97	2.60	3.50
Cincinnati	0.99	2.39	2.69	3.72	1.39	1.97	3.93	6.39
Columbia, SC	1.04	3.40	3.02	1.62	3.33	4.70	5.79	2.65
Dayton	0.91	1.91	1.50	2.47	1.56	2.02	3.63	5.43
Denver	0.46	0.47	1.18	0.52	0.18	0.12	1.25	0.28
Des Moines	1.03	2.93	1.99	1.90	0.26	1.54	1.64	1.91
Dallas Fort Worth	4.43	6.40	2.38	9.63	0.47	3.55	1.38	3.20
Dulles	2.24	2.79	4.95	0.67	2.49	5.75	1.36	6.00
Houston	1.83	4.97	3.88	4.07	2.36	2.57	6.58	8.77
Huntsville	2.37	4.67	6.10	0.46	2.00	5.04	5.21	6.96
Indianapolis	1.42	1.42	2.63	2.47	0.93	1.26	3.97	4.92
Jacksonville	1.60	3.02	0.25	2.65	3.95	6.81	2.18	4.02
Kansas City	1.71	3.99	1.18	3.47	1.55	3.04	2.03	2.08
Knoxville	1.98	4.29	5.66	0.63	1.85	6.06	6.23	6.21
LaGuardia	5.04	3.19	4.40	4.18	2.77	6.71	4.66	5.81
Las Vegas	0.00	0.13	0.07	0.13	0.08	0.06	0.68	0.26
Lexington	0.96	2.10	3.46	2.30	1.70	2.44	6.29	6.05
Little Rock	2.22	4.40	6.13	5.24	4.03	1.40	8.07	9.13
Los Angeles	0.24	1.77	2.79	0.00	0.13	3.57	6.66	1.95
Louisville	1.54	1.74	3.28	2.97	1.32	1.86	5.36	6.53
Memphis	4.82	3.62	5.95	1.57	3.02	2.60	9.13	6.63
Miami	4.85	8.49	1.73	5.78	9.36	3.85	0.05	0.89
Minneapolis	0.24	2.40	1.82	4.50	0.04	2.28	2.25	0.13
Nashville	1.38	4.38	4.49	0.73	1.54	3.01	4.91	5.40
New Orleans	0.85	7.09	8.02	1.06	3.15	9.45	2.91	8.56
Oakland	0.00	1.46	11.50	0.11	0.74	3.12	8.29	4.04
Oklahoma City	2.21	1.71	2.06	4.05	1.37	1.76	0.86	1.80
Omaha	0.56	0.57	1.05	1.83	0.42	1.68	1.22	0.88
Orlando	2.14	4.27	0.95	2.07	5.21	3.67	1.01	1.59
Pensacola	1.15	2.71	5.61	1.44	4.12	4.73	4.03	6.29
Philadelphia	5.80	2.89	4.85	0.72	2.75	7.92	3.36	5.91
Phoenix	0.95	0.04	2.01	0.00	0.29	0.89	1.03	0.73
Pittsburgh	1.76	4.00	1.76	2.60	1.82	2.80	4.02	5.28
Raleigh	1.28	4.95	3.64	2.16	1.49	7.01	3.11	4.45
Richmond	1.91	3.71	4.52	1.31	2.08	8.87	2.82	5.76
St. Louis	3.68	2.45	1.96	2.21	0.97	2.29	2.21	4.03
Salt Lake City	0.81	1.90	2.39	1.97	1.74	0.94	2.71	1.28
San Antonio	1.05	1.79	0.47	3.21	1.40	1.11	0.69	6.72
San Francisco	0.01	1.58	9.66	0.00	1.42	3.91	9.31	5.04
Savannah	0.93	1.93	1.74	1.19	1.05	4.59	4.56	3.10
Tampa	1.10	5.18	2.35	0.38	1.85	4.59	1.55	3.12
Average	1.73	3.10	3.31	2.06	1.89	3.67	3.69	4.32

Source: National Oceanic and Atmospheric Administration

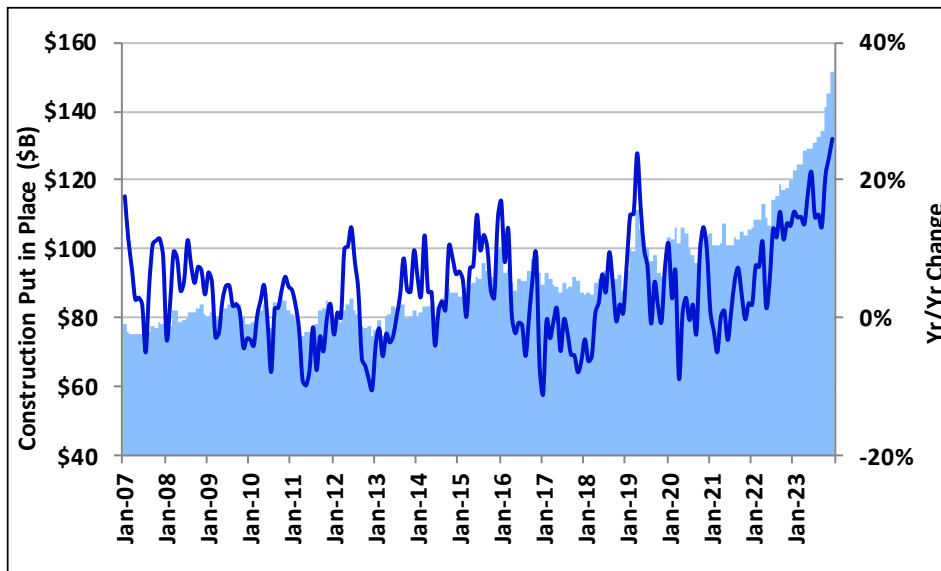
Precipitation higher in January. Average precipitation increased 17% yr/yr in January 2024 in the 50 metro areas that we track. There were 25 metro areas that experienced a potentially troublesome amount of precipitation (greater than 5" during the month). This is up from 15 such metros in January 2023.

Weather appears more favorable in Q4'23. To us, precipitation appears more benign in Q4'23, when average precipitation declined 6% yr/yr. Last week, GCC noted that "favorable weather conditions extended the 2023 construction season into late December."

Too early to fret about Q1'24 results. While weather likely had a negative impact on January results, March is the most important month of the first quarter for materials companies, we believe.

HIGHWAY CONSTRUCTION

Figure 3. Highway and Streets Construction Put in Place (\$B), 2007–2024



Source: U.S. Census Bureau

Highway spending continues to climb. Construction spending on highways and streets registered \$151B in December (+26% yr/yr) on a seasonally adjusted basis.

Growth has averaged 18% over the last 12 months. This compares to 9% average growth in the preceding 12 months (January 2022–December 2022).

We believe that bidding remains elevated, and we expect growth to persist. Practically our entire coverage universe should benefit, in our view.

Figure 4. GDOT FY Awards, FY'20-FY'24E

	GADOT Awards (\$)				
	2020	2021	2022	2023	2024E
JAN	82.3	73.3	56.0	220.1	306.7
FEB	127.7	330.8	69.5	208.4	188.0
MAR	129.0	33.1	113.5	162.6	25.0
APR	210.4	139.6	105.8	206.7	254.0
MAY	179.2	229.9	171.8	208.3	457.0
JUNE	172.3	336.0	206.2	176.7	215.1
JULY	111.0	153.0	136.6	406.9	201.3
AUG	112.2	209.5	104.8	189.7	125.4
SEPT	95.9	111.8	201.2	142.8	244.7
OCT	75.2	121.8	121.2	191.6	79.4
NOV	140.4	79.8	158.3	157.7	46.5
DEC	132.8	109.9	111.3	120.5	256.0
Total	1,568.4	1,928.5	1,556.2	2,392.0	2,399.0

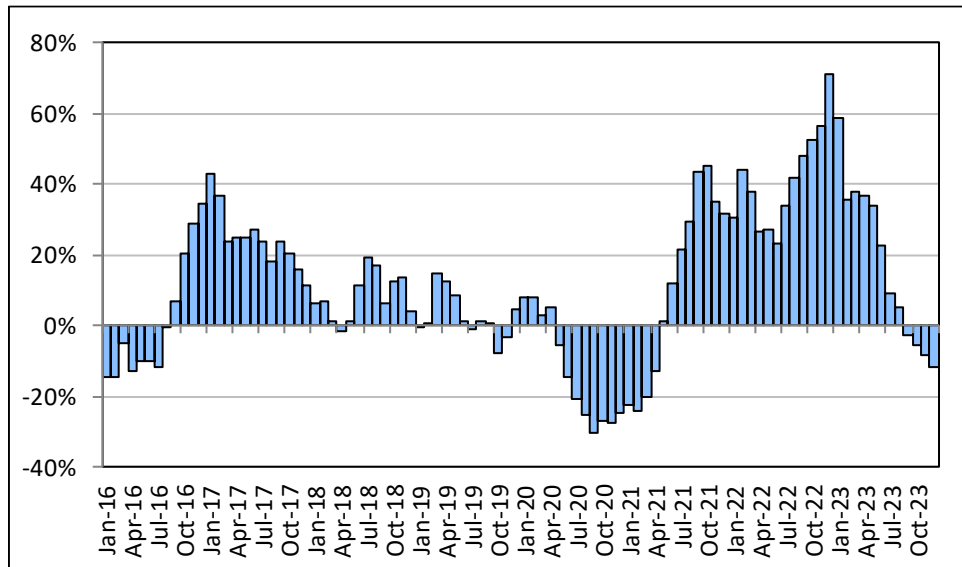
Georgia DOT awards to remain elevated. Last year, Georgia DOT awards surged 54% (to \$2.4B). Based on its current letting schedule, awards are expected to remain elevated during 2024 (at \$2.4B).

Highway Contractor Relief Grant. In January, GDOT began taking applications for \$50M in grants for contractors who were negatively impacted by inflation from March 2021–December 2023. While Construction Partners could directly benefit, we also view it as an interesting example of how states are creatively dispersing extra federal funds.

Source: Georgia Department of Transportation

NONRESIDENTIAL CONSTRUCTION

Figure 5. Nonresidential Construction Starts 2016–2023
(Yr/Yr Change, Six-Month Rolling Average, SAAR)



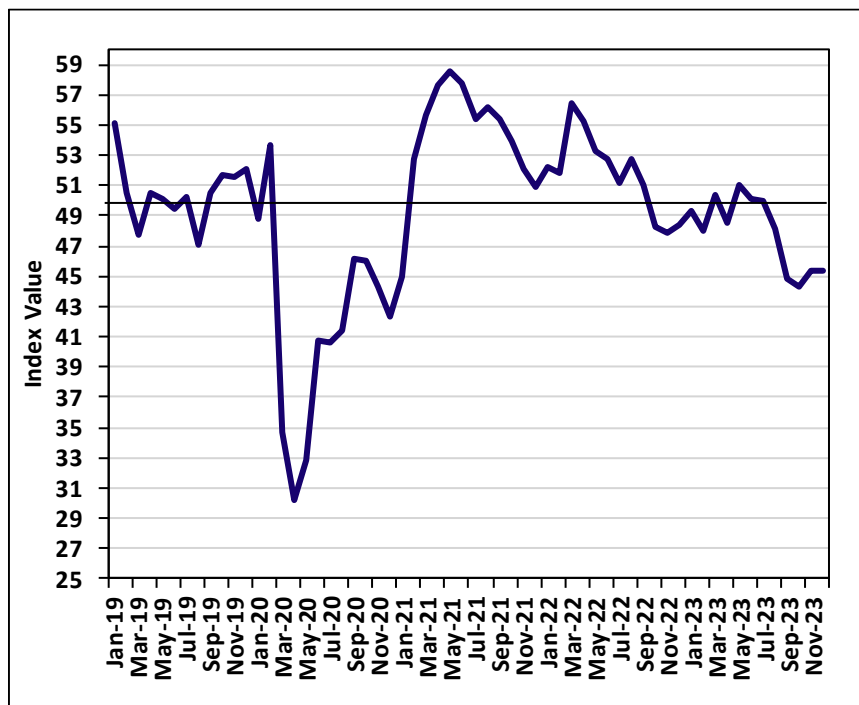
Source: Dodge Data & Analytics

Nonresidential construction starts cooling. Starts declined 12% yr/yr in December to \$480B (SAAR). On an unadjusted basis, nonresidential starts declined 8% during 2023.

For now, we are not alarmed by the decline. Total unadjusted starts registered \$411B in 2023, down from \$445B in 2022. However, the 2023 total is still way above 2021 (at \$300B) and 2019 (at \$314B).

In other words, while nonresidential demand does appear to be cooling, the pace of activity remains elevated versus historical levels, we believe.

Figure 6. Architecture Billings Index Remains Below 50



Source: American Institute of Architects

ABI reports fifth consecutive sub-50 reading. The ABI registered 45.4 in December. During 2023, the ABI averaged just 47.9. Setting aside 2020, this was the worst annual reading since 2010.

Historically, consecutive 50+ ABI readings have been the precursor to a broader nonresidential construction recovery.

Conversely, the 2001–2003 and 2008–2011 nonresidential recessions were both preceded by at least seven consecutive months of ABI readings below 50.

The five mid-40s readings in H2'23 are concerning to us. If the ABI remains this low in the coming months, it could portend slower nonresidential activity in late 2024.

RESIDENTIAL CONSTRUCTION

Figure 7. Residential Starts, Permits, Under Construction, and Completions (SAAR in Ms)

Housing Starts		Dec-23	
Total	Yr/Yr	Mo/Mo	
1.460	8%	-4%	
SF	Yr/Yr	Mo/Mo	
1.027	16%	-9%	
Housing Permits			
Total	Yr/Yr	Mo/Mo	
1.495	6%	2%	
SF	Yr/Yr	Mo/Mo	
0.994	33%	2%	
Housing Under Construction			
Total	Yr/Yr	Mo/Mo	
1.679	-1%	0%	
SF	Yr/Yr	Mo/Mo	
0.671	-11%	-1%	
Housing Completed			
Total	Yr/Yr	Mo/Mo	
1.574	13%	9%	
SF	Yr/Yr	Mo/Mo	
1.056	6%	8%	

Source: U.S. Census Bureau

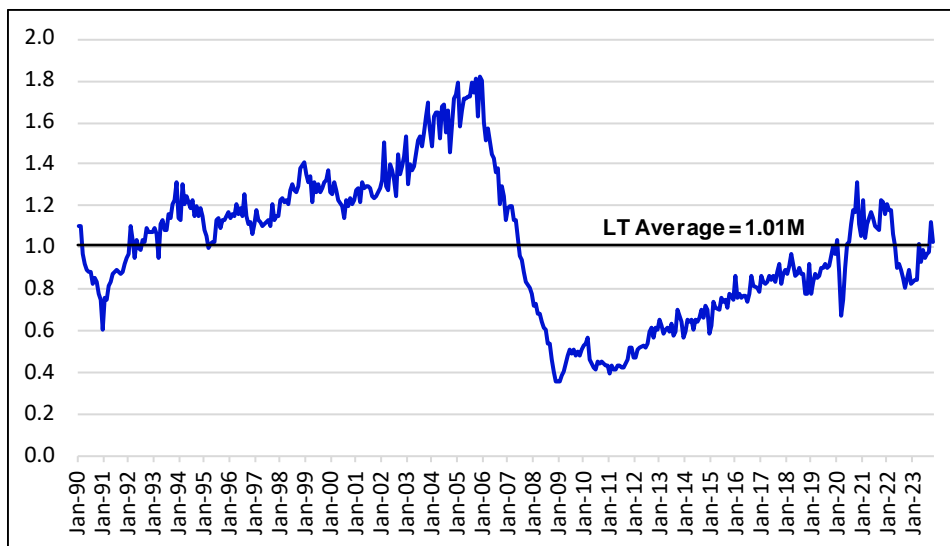
Residential indicators continue strength. During December, single-family housing starts were up 16% yr/yr and permits were +33% on a seasonally adjusted basis.

The December coincident indicators were mixed, with housing under construction -11% yr/yr and housing completed +6%.

We are encouraged by the continued strength in leading indicators. Starts and permits have now increased for six straight months (+15% and +15% yr/yr, on average, respectively).

Eagle Materials (wallboard) has the highest residential construction exposure in our coverage universe. For the large aggregates companies (MLM, VMC), housing represents 20%–25% of sales.

Figure 8. Single-Family U.S. Housing Starts (SAAR), 1990–2023



Source: U.S. Census Bureau

Starts and permits are back above long-term average. The SAAR of single-family housing starts registered 1.03M in December 2023 versus the long-term average of 1.01M.

In December, single-family permits registered 994k (seasonally adjusted). This was up 33% yr/yr and above the long-term average of 893k.

RESIDENTIAL CONSTRUCTION

Figure 9. Single-Family Housing Permits YTD

Housing Permits YTD (Yr/Yr Change - DEC 2023)									
VMC	Yr/Yr	MLM	Yr/Yr	SUM	Yr/Yr	CX	Yr/Yr	EXP	Yr/Yr
TX	-14%	TX	-14%	TX	-14%	CA	-6%	TX	-14%
CA	-6%	CO	-20%	UT	-20%	TX	-14%	CO	-20%
GA	-17%	NC	7%	KS	-10%	AZ	-5%	MO	-19%
TN	11%	GA	-17%	MO	-19%	GA	-17%	NV	-2%
VA	-10%	MN	-23%	VA	-10%	AL	2%	KS	-10%
FL	-9%	IA	-12%	MN	-23%	FL	-9%	OK	-5%
AL	2%	IN	-3%	IA	-12%	TN	11%	IL	-20%
AZ	-5%	SC	-8%	CO	-20%	IL	-20%	KY	4%
NC	7%	FL	-9%	OK	-5%	NV	-2%	OH	-13%
SC	-8%	CA	-6%	GA	-17%	MO	-19%	NE	-23%
AVG	-5%	AVG	-10%	AVG	-15%	AVG	-8%	AVG	-12%

Source: U.S. Census Bureau, company reports, TD&Co. estimates

Broad-based weakness in starts during 2023. For full-year 2023, housing permits were down yr/yr in nearly all the top states for our building materials coverage universe. Summit appears to us to be in the worst position.

Figure 10. Single-Family Housing Permits December

Housing Permits MONTHLY (Yr/Yr Change - DEC 2023)									
VMC	Yr/Yr	MLM	Yr/Yr	SUM	Yr/Yr	CX	Yr/Yr	EXP	Yr/Yr
TX	-9%	TX	-9%	TX	-9%	CA	-13%	TX	-9%
CA	-13%	CO	42%	UT	1%	TX	-9%	CO	42%
GA	-9%	NC	60%	KS	85%	AZ	-10%	MO	-3%
TN	39%	GA	-9%	MO	-3%	GA	-9%	NV	16%
VA	14%	MN	-6%	VA	14%	AL	60%	KS	85%
FL	-1%	IA	21%	MN	-6%	FL	-1%	OK	-17%
AL	60%	IN	15%	IA	21%	TN	39%	IL	-46%
AZ	-10%	SC	-5%	CO	42%	IL	-46%	KY	1%
NC	60%	FL	-1%	OK	-17%	NV	16%	OH	4%
SC	-5%	CA	-13%	GA	-9%	MO	-3%	NE	16%
AVG	13%	AVG	9%	AVG	12%	AVG	2%	AVG	9%

Source: U.S. Census Bureau, company reports, TD&Co. estimates

December much more positive. Looking at single-family permits in December 2023, most states were positive. Vulcan appears slightly best-positioned based on monthly trends.

MATERIALS PRICING

Figure 11. Producer Pricing Index Analysis

	Q4'22	Q4'23	Yr/Yr		Qtr/Qtr		Q4'23 Estimates (Yr/Yr Change)			
			Change	Q3'23	Change	EXP	MLM	SUM	VMC	
Ready-Mix Concrete	341	372	9%	367	1%	11%	17%	7%	9%	
Gypsum	462	455	-1%	458	0%	-4%				
Cement	310	336	8%	336	0%	13%	16%	10%	0%	
Aggregates	427	463	8%	461	1%	-4%	17%	13%	14%	
Asphalt	277	249	-10%	267	-7%					
Paperboard	364	326	-10%	325	0%					
Natural Gas	205	89	-57%	83	6%					
#2 Diesel Fuel	537	381	-29%	399	-5%					
Paint and Coating	418	413	-1%	415	-1%					
Coke	1105	872	-21%	793	10%					
Coal	298	280	-6%	279	0%					
Cold-Rolled Steel	358	379	6%	382	-1%					
Lumber	275	242	-12%	262	-7%					
Insulation	263	266	1%	268	-1%					

Source: U.S. Census Bureau, TD&Co. estimates

Materials pricing remains elevated. During Q4'23, pricing for aggregates, cement, and concrete all remain elevated, with aggregates +9% yr/yr, cement +8%, and concrete +9%. Gypsum prices were down 1% yr/yr.

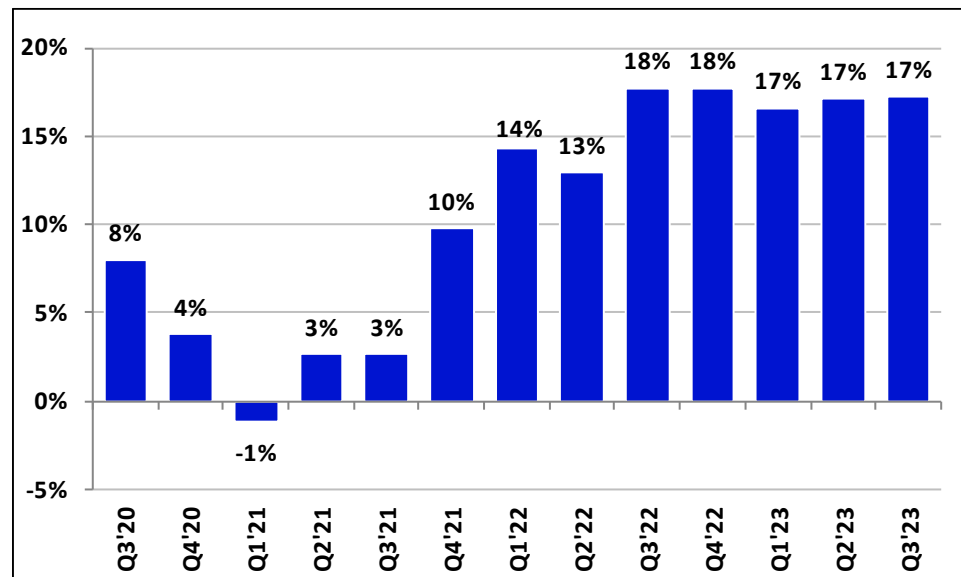
Input costs continue to decline, particularly on a yr/yr basis. During Q4'23, pricing for asphalt, natural gas, and diesel declined 10%, 57%, and 29% yr/yr, respectively.

At some point, lower costs could lead to less pricing momentum. At the margin, this may be happening now. Nonetheless, aggregates companies remain upbeat about 2024 pricing growth, we believe.

Setup remains positive. Materials companies should continue to benefit from higher prices, some input cost deflation, and solid demand into 2024, we believe.

E&C BACKLOG

Figure 12. E&C Backlogs (% change yr/yr)



E&C backlog strength continues in Q3'23. In aggregate, backlog for nine E&C stocks we cover increased 17% yr/yr in Q3'23 and 3% sequentially. All nine reported yr/yr backlog growth in the third quarter.

Source: Company reports

Figure 13. E&C Backlogs (\$M) Q3'20–Q3'23

	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23
AECOM	\$41,173	\$39,719	\$39,427	\$39,687	\$38,578	\$38,800	\$40,796	\$41,130	\$40,184	\$40,825	\$41,983	\$41,631	\$41,168
Comfort Systems	1,429	1,511	1,660	1,840	1,941	2,312	2,733	2,808	3,251	4,064	4,445	4,186	4,288
Construction Partners	608	656	773	823	966	1,090	1,280	1,330	1,410	1,470	1,520	1,590	1,600
Dycom	5,412	6,810	6,528	5,895	5,896	5,822	5,593	6,028	6,116	6,141	6,316	6,207	6,613
EMCOR	4,530	4,595	4,775	5,107	5,379	5,599	5,953	6,461	7,101	7,459	7,873	8,286	8,635
Great Lakes Dredge & Dock	661	559	486	454	598	552	473	374	453	377	327	435	1,034
MasTec	7,702	7,874	7,864	9,208	8,523	9,939	10,645	11,005	11,227	12,979	13,892	13,442	12,490
Primoris	2,974	2,777	3,087	2,870	2,739	4,003	4,025	4,572	5,472	5,484	5,559	6,589	6,687
Quanta	15,072	15,133	15,830	16,978	17,024	19,274	20,454	19,850	20,875	24,094	25,274	27,195	30,096
Total	\$79,561	\$79,633	\$80,431	\$82,861	\$81,645	\$87,391	\$91,953	\$93,558	\$96,088	\$102,893	\$107,190	\$109,560	\$112,610
Yr/Yr Change	8%	4%	-1%	3%	3%	10%	14%	13%	18%	18%	17%	17%	17%

Source: Company reports

Note: We have adjusted AECOM's backlog to exclude the MS division (divested in January 2020)

Consolidated E&C backlog reaches \$111B. During Q3'23, nine E&Cs that we cover grew backlog yr/yr. Two reported slight sequential backlog declines: ACM (1%) and MasTec (7%). In general, we expect our covered companies to continue to benefit from robust heavy nonresidential and public spending.

TELECOM CAPEX

Figure 14. U.S. Telecom Capital Expenditures 2021–2024E

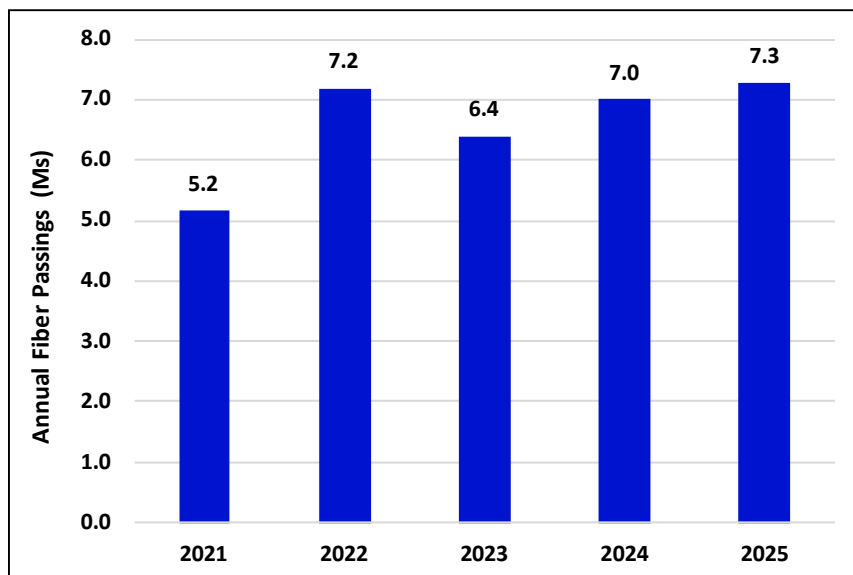
	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23E	2023E	2024E
AT&T	\$20,656	\$6,134	\$6,679	\$6,821	\$4,689	\$24,323	\$6,448	\$5,913	\$5,627	\$5,607	\$23,595	\$21,500
% Change (Yr/Yr)	5%	10%	33%	24%	2%	18%	5%	-11%	-18%	20%	-3%	-9%
% Change (Seq)		34%	9%	2%	-31%		38%	-8%	-5%	0%		
Verizon	\$20,286	\$5,821	\$4,670	\$5,320	\$7,276	\$23,087	\$5,958	\$4,112	\$4,094	\$4,603	\$18,767	\$17,250
% Change (Yr/Yr)	12%	30%	11%	3%	13%	14%	2%	-12%	-23%	-37%	-19%	-8%
% Change (Seq)		-9%	-20%	14%	37%		-18%	-31%	0%	12%		
Comcast	\$6,931	\$1,367	\$1,776	\$2,022	\$2,404	\$7,569	\$1,964	\$2,125	\$2,082	\$2,069	\$8,240	\$8,351
% Change (Yr/Yr)	5%	0%	5%	21%	10%	9%	44%	20%	3%	-14%	9%	1%
% Change (Seq)		-38%	30%	14%	19%		-18%	8%	-2%	-1%		
Charter, New	\$7,153	\$1,783	\$2,098	\$2,310	\$2,809	\$9,000	\$2,387	\$2,752	\$2,885	\$2,777	\$10,801	\$12,000
% Change (Yr/Yr)	4%	4%	19%	33%	44%	26%	34%	31%	25%	-1%	20%	11%
% Change (Seq)		-8%	18%	10%	22%		-15%	15%	5%	-4%		
T-Mobile US	\$12,326	\$3,381	\$3,572	\$3,634	\$3,383	\$13,970	\$3,001	\$2,789	\$2,424	\$1,587	\$9,801	\$9,000
% Change (Yr/Yr)	12%	6%	9%	23%	16%	13%	-11%	-22%	-33%	-53%	-30%	-8%
% Change (Seq)		15%	6%	2%	-7%		-11%	-7%	-13%	-35%		
Lumen	\$2,900	\$577	\$761	\$845	\$833	\$3,016	\$640	\$796	\$843	\$721	\$3,000	
% Change (Yr/Yr)	-22%	-19%	18%	22%	-2%	4%	11%	5%	0%	-13%	-1%	
% Change (Seq)		-32%	32%	11%	-1%		-23%	24%	6%	-14%		
Frontier	\$1,705	\$447	\$641	\$772	\$878	\$2,738	\$1,154	\$1,057	\$671	\$218	\$3,100	
% Change (Yr/Yr)	44%	16%	66%	105%	57%	61%	158%	65%	-13%	-75%	13%	
% Change (Seq)		-20%	43%	20%	14%		31%	-8%	-37%	-68%		
Altice USA	\$1,232	\$392	\$485	\$494	\$543	\$1,914	\$583	\$473	\$353	\$291	\$1,700	
% Change (Yr/Yr)	3%	84%	50%	60%	40%	55%	49%	-2%	-28%	-47%	-11%	
% Change (Seq)		1%	24%	2%	10%		7%	-19%	-25%	-18%		
Summary	\$73,189	\$19,902	\$20,682	\$22,218	\$22,815	\$85,617	\$22,135	\$20,017	\$18,979	\$17,873	\$79,004	
% Change (Yr/Yr)	7%	13%	19%	21%	15%	17%	11%	-3%	-15%	-22%	-8%	
% Change (Seq)		0%	4%	7%	3%		-3%	-77%	-14%	-11%		

Source: Visible Alpha, company reports

Note: Lumen, Frontier, and Altice have yet to report Q4'23 capex numbers

Capex outlook mixed for 2024. Based on the Q4'23 reports received thus far, the capex outlook appears better for cable than telecom in 2024. However, AT&T noted that while gross capex is projected to be down in 2024, construction activity should increase yr/yr.

Figure 15. Fiber-to-the-Home Construction Tracker



Source: Company reports, TD&Co. estimates

Large fiber programs are underway, but deployments fell in 2023. We aggregated build plans for 11 large telco and cable companies.

We estimate that fiber passings declined 11% in 2023 (to 6.4M) after increasing 39% in 2022 (to 7.2M). This reflects a decline in activity at AT&T, partially offset by growth at other carriers.

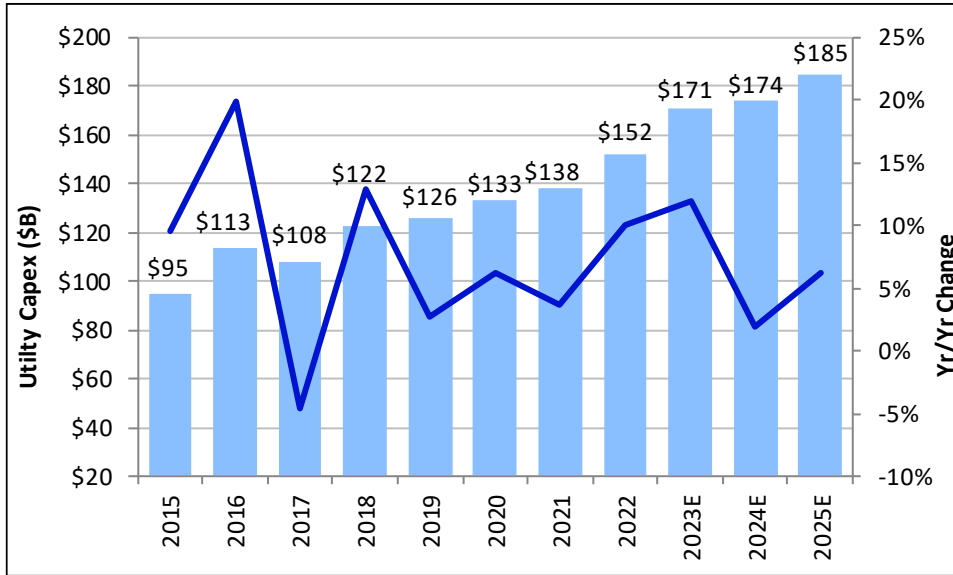
We expect industry growth to resume in 2024 and forecast passings +9% this year (to 7M).

We expect AT&T to reaccelerate fiber passings this year, and Corning noted that large carriers have communicated increased broadband deployment plans over the last several months (January 30, 2024).

DY, MTZ, PRIM, and PWR all have exposure, in our view.

ELECTRIC POWER

Figure 16. Electric Utility Capex (\$B), 2015–2025



Source: Visible Alpha, company reports

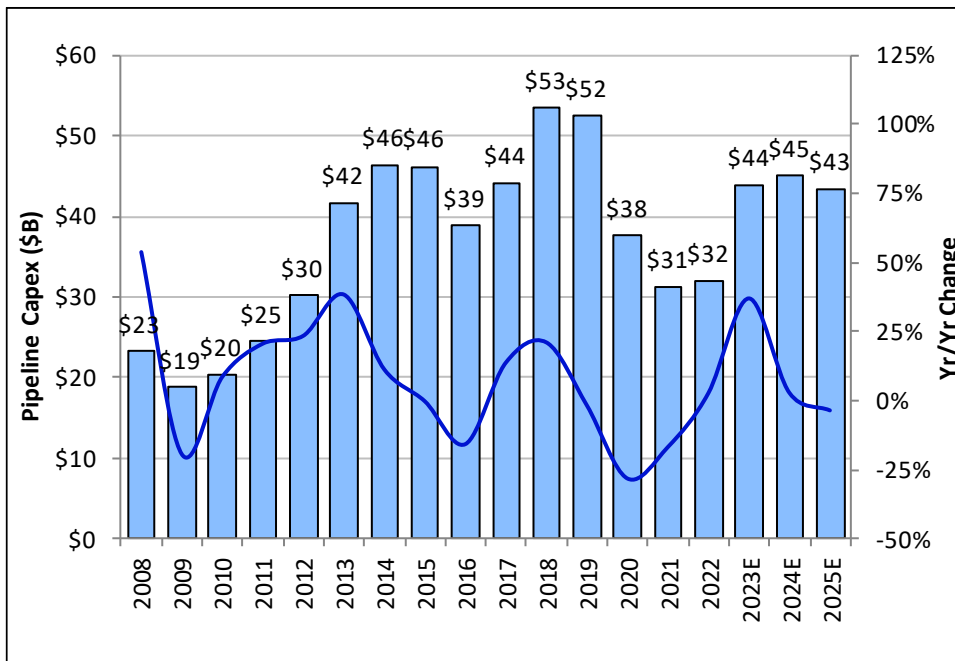
Strong growth to carry into 2024. Capex for the 43 largest shareholder-owned electric utilities is projected to increase 2% in 2024 after growing 12% in 2023. For now, analysts forecast +6% in 2025.

We look for continued strong investments in transmission and distribution lines as well as renewables construction. Hubbell, a large T&D distribution company, forecasts mid-single-digit organic growth in 2024 (January 30, 2024).

We believe strong electric utility spending could benefit MTZ, PRIM, and PWR, most notably.

MIDSTREAM

Figure 17. Pipeline Capital Expenditures (\$B), 2008–2025E



Source: Visible Alpha, company reports

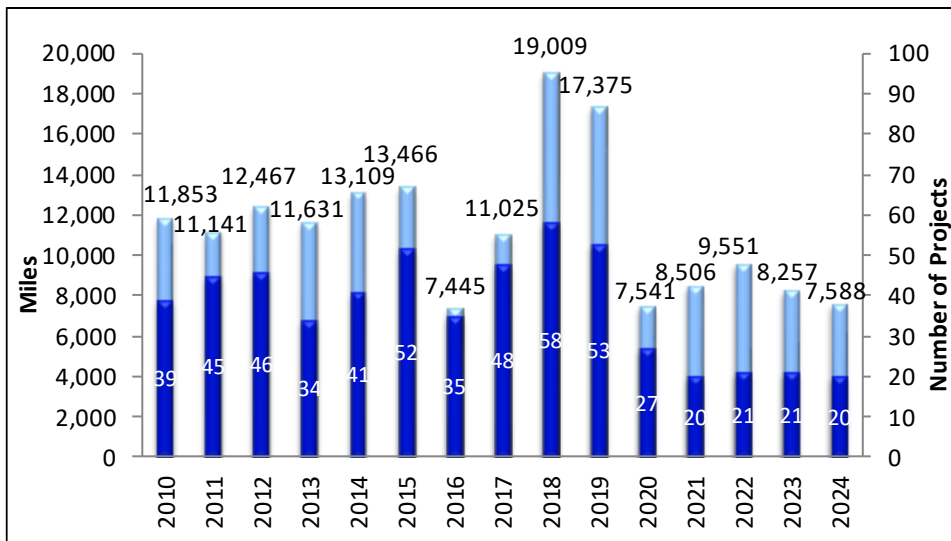
Pipeline capex rebounded in 2023.

For the 22 largest shareholder-owned pipe companies in the U.S. (largely MLPs), capex is projected to increase 3% yr/yr in 2024, after surging 37% yr/yr in 2023.

We are encouraged that capex is projected to remain elevated after two years of depressed spending in 2021 and 2022. For now, analysts expect a slight drop in 2025 spending.

Companies with exposure include MTZ, PRIM, and PWR.

Figure 18. Major Planned U.S. Pipeline Projects, 2010–2024 YTD



Note: Only includes U.S. projects of more than 100 miles

Source: TD&Co., US EIA, EEIA, Pipeline Intelligence Report, RBN Energy, company reports

Pipeline tracker recedes. Our U.S. pipeline tracker stands at 7,588 miles, which is down from 8,257 miles at the end of 2023. As jobs enter the construction phase, they roll off our tracker.

We are tracking 4,254 miles of traditional oil and gas lines, which is historically a very low level.

Augmenting our list are three CO2 lines (2,633 miles) and one hydrogen line (700 miles). Unfortunately, two of the three CO2 lines appear troubled, which could reduce our tracker to an all-time low.

DOWNSTREAM

Figure 19. Average U.S. Refinery Utilization Rate, 2014–2024

% Operable Utilization											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
JAN	88.6%	89.7%	89.7%	90.1%	91.8%	93.4%	90.1%	81.8%	87.7%	85.3%	88.5%
FEB	87.3%	88.2%	87.5%	85.9%	89.6%	87.4%	88.1%	72.7%	87.2%	86.5%	
MAR	86.3%	88.6%	89.2%	87.7%	91.0%	87.4%	85.6%	77.7%	90.7%	88.5%	
APR	89.6%	91.2%	89.6%	92.8%	92.0%	88.6%	70.5%	85.2%	90.4%	90.6%	
MAY	89.7%	92.7%	89.8%	93.4%	91.8%	90.5%	70.2%	87.0%	91.9%	92.0%	
JUNE	88.7%	94.2%	91.4%	93.7%	96.5%	93.9%	74.3%	92.3%	94.2%	93.2%	
JULY	93.2%	95.3%	92.7%	94.6%	95.2%	93.8%	78.5%	91.6%	93.3%	93.5%	
AUG	92.8%	94.6%	92.8%	96.1%	97.1%	95.4%	80.2%	91.9%	93.6%	94.1%	
SEPT	92.5%	91.2%	91.4%	83.5%	93.5%	90.6%	74.6%	84.9%	91.6%	91.1%	
OCT	87.8%	87.2%	85.3%	87.4%	89.1%	85.4%	75.0%	86.5%	89.7%	85.7%	
NOV	91.6%	91.6%	89.2%	91.1%	92.8%	88.9%	77.2%	88.0%	93.5%	87.0%	
DEC	94.2%	92.2%	91.1%	94.7%	95.7%	91.5%	79.1%	89.7%	90.0%	92.0%	
Annual	90.2%	91.4%	90.1%	90.8%	93.1%	90.6%	78.6%	85.9%	91.2%	90.1%	88.5%

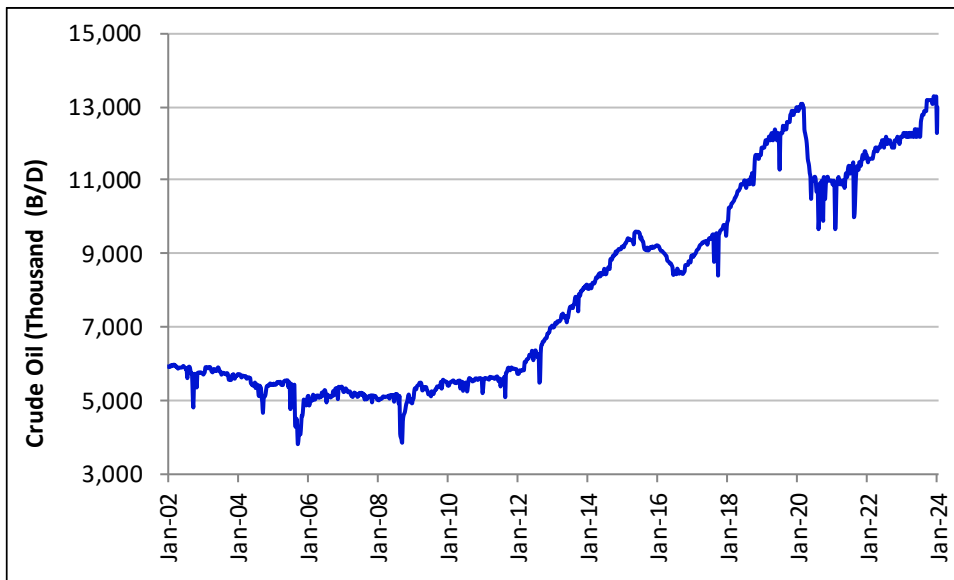
Source: U.S. Energy Information Association

Low refinery utilization in Q4'23 could point to increased construction activity. Refinery utilization picked up in December 2023 (to 92%), but for the fourth quarter it averaged 88% (down from 91% last year). This could reflect downtime related to maintenance services. We checked in with a private contractor and he confirmed that “the fall was a very busy turnaround season.”

The downstream service providers in our coverage (EME, PWR) saw relatively solid demand in H1'23, in our view. Based on recent refinery utilization rates and our private checks, this trend could continue in Q4'23, we believe.

UPSTREAM

Figure 20. U.S. Weekly Crude Production (000s barrels/day)

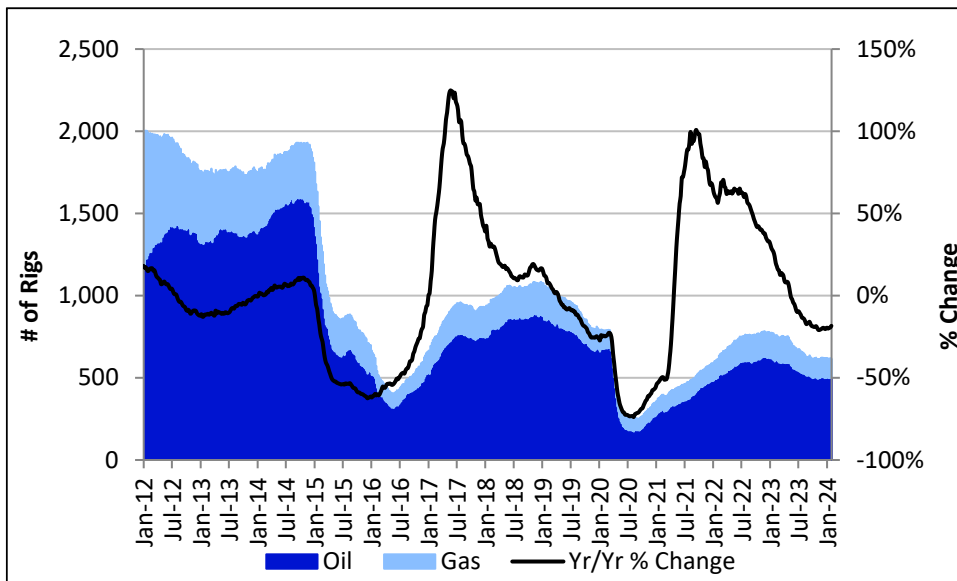


Source: U.S. Energy Information Association

Oil production remains at peak. U.S. oil production registered 13.0M barrels per day for the week ending January 26 (+6% yr/yr), with 16 of the past 17 weeks exceeding 13.0M. Prior peak production was 13.1M barrels in March 2020.

Bullish for pipelines. Elevated U.S. production could increase the need for new pipeline infrastructure, in our view. So far, this is not yet evident in our tracker.

Figure 21. U.S. Rig Count, 2012–2024



Source: U.S. Energy Information Association

Rig count declining. During the week of February 2, 2024, total U.S. rigs were 619, down 18% yr/yr. This is the 36th consecutive weekly decline in rig counts.

To the positive, the total rig count does appear to be stabilizing in the low-600 rig level.

COVERAGE VALUATION

Figure 22. TD&Co. Coverage Comp Table

<u>Building Materials</u>																	
Company	Symbol	2/6/24	TD&Co.		YTD	Current Year Estimates				Next Year Estimates				Enterprise Value (\$M)	Market Cap (\$M)		
		Price	Rating	Target	Return	EBITDA (\$M)	EV/EBITDA	EPS	P/E	EBITDA (\$M)	EV/EBITDA	EPS	P/E				
CEMEX	CX	\$8.57	Buy	\$11	11%	\$3,326.0	6.0x	\$0.57	15.1x	\$3,461.6	5.7x	\$0.74	11.6x	\$19,847	\$12,555		
Eagle Materials	EXP	\$235.88	Hold	NA	16%	\$844.0	10.0x	\$14.05	16.8x	\$882.3	9.6x	\$15.09	15.6x	\$9,180	\$8,197		
Martin Marietta	MLM	\$510.72	Buy	\$550	2%	\$2,095.4	16.9x	\$18.50	27.6x	\$2,263.0	15.6x	\$19.89	25.7x	\$35,364	\$31,665		
Summit Materials	SUM	\$36.58	Buy	\$40	-5%	\$568.3	15.7x	\$1.52	24.1x	\$950.2	9.4x	\$1.56	23.5x	\$8,915	\$6,421		
Vulcan Materials	VMC	\$231.51	Buy	\$250	2%	\$1,978.5	17.4x	\$6.92	33.5x	\$2,162.4	15.9x	\$7.80	29.7x	\$34,483	\$30,953		
Average					5%	12.9x				23.4x				11.0x		21.2x	
<u>Building Products</u>																	
Company	Symbol	2/6/24	TD&Co.		YTD	Current Year Estimates				Next Year Estimates				Enterprise Value (\$M)	Market Cap (\$M)		
		Price	Rating	Target	Return	EBITDA (\$M)	EV/EBITDA	EPS	P/E	EBITDA (\$M)	EV/EBITDA	EPS	P/E				
AZZ Inc.	AZZ	\$64.40	Buy	\$75	11%	\$325.6	8.8x	\$4.27	15.1x	\$332.7	8.6x	\$4.49	14.4x	\$2,861	\$1,889		
Quanex Building Products	NX	\$31.07	Buy	\$40	2%	\$141.6	7.3x	\$2.23	13.9x	\$153.1	6.8x	\$2.45	12.7x	\$1,035	\$1,025		
Average					6%	8.0x				14.5x				7.7x		13.5x	
<u>Engineering & Construction</u>																	
Company	Symbol	2/6/24	TD&Co.		YTD	Current Year Estimates				Next Year Estimates				Enterprise Value (\$M)	Market Cap (\$M)		
		Price	Rating	Target	Return	EBITDA (\$M)	EV/EBITDA	EPS	P/E	EBITDA (\$M)	EV/EBITDA	EPS	P/E				
AECOM	ACM	\$85.50	Buy	\$100	-5%	\$1,074.8	12.3x	\$4.40	19.4x	\$1,160.1	11.4x	\$4.88	17.5x	\$13,260	\$11,920		
Comfort Systems	FIX	\$223.24	Buy	\$250	9%	\$578.7	14.4x	\$9.75	22.9x	\$628.0	13.3x	\$11.05	20.2x	\$8,343	\$8,018		
Construction Partners	ROAD	\$47.03	Buy	\$50	8%	\$206.2	13.5x	\$1.22	38.6x	\$234.8	11.9x	\$1.50	31.3x	\$2,791	\$2,465		
Dycom	DY	\$114.80	Buy	\$130	0%	\$504.9	8.6x	\$7.34	15.7x	\$537.2	8.1x	\$7.07	16.2x	\$4,360	\$3,408		
EMCOR Group	EME	\$233.99	Buy	\$250	8%	\$931.3	11.5x	\$12.33	19.0x	\$989.5	10.8x	\$13.27	17.6x	\$10,671	\$11,091		
Great Lakes Dredge	GLDD	\$7.70	Buy	\$12	1%	\$55.7	15.7x	(\$0.01)	-1212.3x	\$103.5	8.5x	\$0.48	15.9x	\$875	\$512		
Mas Tec	MTZ	\$67.87	Buy	\$80	-10%	\$850.0	9.8x	\$1.75	38.8x	\$950.9	8.8x	\$1.76	38.6x	\$8,326	\$5,325		
North American Construction	NOA-TSE	\$29.66	Buy	\$60	4%	\$297.0	5.3x	\$2.84	10.5x	\$450.3	3.5x	\$4.37	6.8x	\$1,578	\$792		
Primoris Services	PRIM	\$35.09	Buy	\$45	7%	\$371.3	7.7x	\$2.70	13.0x	\$416.9	6.8x	\$3.14	11.2x	\$2,845	\$1,907		
Quanta Services	PWR	\$200.35	Buy	\$190	-7%	\$1,929.3	17.4x	\$7.07	28.4x	\$2,143.0	15.6x	\$7.78	25.7x	\$33,496	\$29,810		
Southland Holdings	SLND	\$4.77	Buy	\$9	-5%	\$27.7	18.7x	(\$0.26)	-18.3x	\$86.3	6.0x	\$0.47	10.2x	\$518	\$228		
Average					1%	12.3x				18.8x				9.5x		19.2x	
<u>Telecom Equipment</u>																	
Company	Symbol	2/6/24	TD&Co.		YTD	Current Year Estimates				Next Year Estimates				Enterprise Value (\$M)	Market Cap (\$M)		
		Price	Rating	Target	Return	EBITDA (\$M)	EV/EBITDA	EPS	P/E	EBITDA (\$M)	EV/EBITDA	EPS	P/E				
Keysight Technologies	KEYS	\$154.80	Buy	\$160	-3%	\$1,559.0	17.1x	\$6.80	22.8x	\$1,648.4	16.2x	\$7.40	20.9x	\$26,722	\$27,400		

Source: TD&Co., FactSet, Visible Alpha, company reports

Note: North American Construction Group (NOA-TSE) estimates are in CAN\$; Current-year E&C average EPS excludes GLDD

COVERAGE COMPARISONS

Figure 23. TD&Co. Coverage Comp Table

<u>Building Materials</u>														
<u>Company</u>	<u>Current Year Estimates</u>					<u>Next Year Estimates</u>					<u>Net Debt/</u>	<u>Book Value/Share</u>		
	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>			<u>Debt (\$M)</u>	<u>Cap</u>
CEMEX	11.8%	33.4%	19.3%	12.1%	5.9%	10.8%	34.4%	19.7%	12.6%	5.9%	\$6,959.5	35.4%	\$8.31	\$1.96
Eagle Materials	22.0%	30.6%	37.3%	27.9%	6.1%	30.4%	30.0%	36.3%	27.3%	6.5%	\$983.6	7.5%	\$38.36	\$24.32
Martin Marietta	7.9%	29.4%	31.1%	23.1%	3.2%	8.5%	29.7%	31.1%	21.7%	3.1%	\$3,696.6	30.4%	\$125.88	\$67.02
Summit Materials	8.9%	31.5%	23.9%	13.3%	4.1%	7.5%	29.1%	22.2%	12.6%	3.3%	\$2,494.4	49.9%	\$13.15	\$5.68
Vulcan Materials	6.0%	24.4%	25.4%	17.2%	2.1%	7.1%	24.7%	25.7%	18.0%	2.9%	\$3,529.8	31.2%	\$55.65	\$18.23
Average	11.3%	29.9%	27.4%	18.8%	4.3%	12.8%	29.6%	27.0%	18.4%	4.4%		30.9%		

<u>Building Products</u>														
<u>Company</u>	<u>Current Year Estimates</u>					<u>Next Year Estimates</u>					<u>Net Debt/</u>	<u>Book Value/Share</u>		
	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>			<u>Debt (\$M)</u>	<u>Cap</u>
AZZ	5.2%	23.6%	21.4%	14.7%	7.3%	6.1%	24.3%	21.2%	15.3%	5.1%	\$972.5	51.2%	\$31.41	\$7.35
Quanex Building Products	11.8%	24.3%	12.8%	8.6%	7.3%	12.8%	24.7%	13.2%	8.9%	7.4%	\$10.3	1.7%	\$16.54	\$8.74

<u>Engineering & Construction</u>														
<u>Company</u>	<u>Current Year Estimates</u>					<u>Next Year Estimates</u>					<u>Net Debt/</u>	<u>Book Value/Share</u>		
	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>			<u>Debt (\$M)</u>	<u>Cap</u>
AECOM	13.0%	15.0%	14.9%	12.2%	5.5%	15.1%	15.3%	15.3%	13.1%	6.0%	\$1,172.4	25.6%	\$17.10	(\$7.55)
Comfort Systems	30.2%	18.7%	9.4%	7.5%	4.1%	31.7%	18.7%	9.6%	7.9%	4.7%	\$325.0	21.2%	\$33.61	\$8.23
Construction Partners	7.2%	13.7%	11.6%	5.8%	2.8%	9.1%	14.2%	12.1%	6.5%	3.2%	\$326.7	36.6%	\$9.86	\$6.45
Dycom	12.2%	19.5%	12.1%	7.8%	0.6%	11.1%	19.4%	12.1%	7.6%	5.9%	\$951.2	47.1%	\$35.50	\$21.16
EMCOR Group	25.2%	16.2%	7.5%	6.5%	5.9%	27.8%	16.3%	7.5%	6.5%	6.6%	-\$419.7	-17.6%	\$48.08	\$15.29
Great Lakes Dredge & Dock	-0.1%	11.7%	9.8%	1.8%	-14.9%	3.9%	18.2%	15.7%	8.8%	-22.3%	\$362.8	49.8%	\$5.50	\$4.35
MasTec	-2.3%	11.6%	7.1%	0.7%	4.6%	0.9%	12.3%	7.5%	1.9%	7.6%	\$2,991.1	50.5%	\$34.59	(\$2.89)
North American Construction C	9.2%	15.1%	23.1%	NA	11.7%	15.2%	17.8%	27.6%	NA	20.7%	\$786.6	69.8%	\$12.72	\$12.50
Primoris Services	4.7%	10.3%	6.2%	4.3%	2.1%	5.7%	10.8%	6.7%	4.8%	3.9%	\$938.0	40.9%	\$22.02	\$1.96
Quanta Services	8.3%	14.5%	9.5%	5.7%	2.8%	9.7%	15.2%	10.0%	6.4%	3.1%	\$3,676.6	36.8%	\$40.30	\$4.93
Southland Holdings	-1.6%	3.4%	2.4%	-2.2%	-7.4%	3.5%	10.5%	7.5%	4.6%	6.3%	\$276.9	48.1%	\$5.56	\$5.49
Average	9.6%	13.6%	10.3%	5.0%	1.6%	12.2%	15.3%	12.0%	6.8%	4.2%		37.2%		

<u>Telecom Equipment</u>														
<u>Company</u>	<u>Current Year Estimates</u>					<u>Next Year Estimates</u>					<u>Net Debt/</u>	<u>Book Value/Share</u>		
	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>	<u>ROIC</u>	<u>Gross Margin</u>	<u>EBITDA Margin</u>	<u>Operating Margin</u>	<u>FCF Yield</u>			<u>Debt (\$M)</u>	<u>Cap</u>
Keysight Technologies	17.1%	65.9%	30.8%	28.4%	4.4%	19.0%	66.3%	31.3%	28.9%	4.5%	(678.0)	-10.5%	\$26.29	\$16.15

Source: TD&Co., FactSet, Visible Alpha, company reports

Note: North American Construction Group (NOA-TSE) figures are in CAN\$

IMPORTANT DISCLOSURES***Rating Definitions***

Thompson Davis & Co., Inc. (TD&Co.) uses the performance of the S&P 500 and the Russell 2000 against stock price performance to define its rating system.

Buy: Company/Industry has strong fundamentals, attractive valuation; outperforms the relevant indices in over the next 12–18 months

Hold: Stock is fairly valued; no compelling reason to buy or sell stock today; cautious about prospects over the next 6–12 months for industry or company; neutral performance relative to the relevant indices.

Sell: Fundamentals of industry or company are deteriorating; company not expected to have consistent earnings growth over next 12–18 months or business model is questionable; underperforms the relevant indices in the next 12–18 months.

Price Targets

Price targets, when established, represent our best estimate of the market price of a stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

Analyst Certification

I, Adam Thalhimer, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

OTHER DISCLOSURES

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