**First Quarter report, 2023, for NV5 Global (NVEE) Date:** July 10, 2023

Percentage change in Sales from year ago quarter -3.1%

Percentage change in Earnings per Share from year ago quarter -31.6%

Is company meeting our target sales & earnings estimates? **No**

Pre-tax Profit on sales trend? (up, even, down) **UP**

Return on equity trends? (up, even, down) DOWN

Debt? (up, even, down) **DOWN**

Current PE is 34.2

Where does it fall in my estimated High/low range of PE's? **Slightly above midpoint**

Signature PE =\_**33.3**\_\_\_\_\_\_\_\_

Club cost basis for this stock is **$53.84**. Current price is $105.69 (06/09/23)

**Current fair value**: Morningstar 4\*\*\*\*: $143.95 S&P: $- Value Line: $180

**My SSG Total Return** is \_\_\_11.8%\_\_ Projected Average Return is 7.8%

**What will drive future growth?**

* **Small Cap Advisor**

**NV5 Global** is a provider of professional and technical engineering and consulting solutions to public and private sector clients. The company serves the infrastructure, energy, construction, real estate, and environmental markets. **NV5** primarily focuses on six business verticals: infrastructure; buildings and

program management; environmental health sciences; geospatial technology; utility services; and testing, inspection, and consulting. . The company operates out of more than 115 locations nationwide and in Macau, Hong Kong, and the UAE. The company HQ is in Hollywood, Fla

**Value Line** – NV5 Global continued to face a number of obstacles in the first quarter. Revenues dipped 3% from the year-earlier period, as declines across the Infrastructure (INF) and Building, Technology & Sciences (BTS) segments were only partially offset by a significant increase in the smaller, fast-growing Geospatial Solutions (GEO) unit. Moreover, unfavorable weather and lower project billing cycles have led to weakness in the LNG business arm of the INF unit. Meanwhile poor results in the BTS unit reflected a higher interest rate environment that caused a decrease in real estate transactional services. This should lead to a slower recovery in the June period due to further project delays. Alternatively, the focus has mainly been on expanding the smallest GEO division which saw its revenues jump 45%, year over year, thanks to incremental gains of roughly $9 million from recent acquisitions completed since 2022. Share earnings for the period contracted 32%, stemming from increased operating costs due to new hires to adequately staff the company for upcoming infrastructure and public sector projects. Further, a slew of new acquisitions since the year began should lead to higher integration costs through the early part of 2023. As a result, we look for a nice uptick in sales this year, but earnings will likely come in below last year’s tally. The solid balance sheet supports increased M&A activity. On April 6th, the company acquired the Visual Solutions commercial geospatial technology and software business from L3Harris for $70 million in cash. This move ought to strengthen its subscription-based software solution offerings across the GEO division. The deal comes after its February purchase of Continental Mapping Acquisition Corp and its subsidiaries (i.e. Axim) for $141 million in cash. Three other mergers were also completed year to date, signaling the company’s efforts to diversify and expand its GEO portfolio. Although debt increased, these levels are still manageable.

These shares hold a Below Average rank for Timeliness (4). Over the 3- to 5-year period, this stock offers aboutaverage recovery potential. Investment on

Oriatal J. Haiby June 09, 2023.

### **Value Line Industry - Engineering & ConstRank: 20, Timeliness is 22 of 33.**

**Stocks in The Engineering & Construction (E&C) Industry continue to outperform most other sectors. The S&P 500 Construction and Engineering Industry Index has risen around 23% year to date. While this industry is highly cyclical, the optimism about long-term federal spending and pent-up demand for clean energy-related projects ought to support revenues and profits over the coming years. Indeed, there are many companies that should experience an acceleration from their historic top- and bottom-line growth rates. Stock performances within our coverage universe have been more of a mixed bag. Shares of Fluor gave back recent gains after it reported weaker-than-expected first-quarter results and took additional charges on problematic projects. Commodity prices tied to industrial production have also dropped of late. Meanwhile, KBR continues to be a steady performer, up close to 7% since our March review. The company surpassed our expectations in the first quarter, thanks to an expansion in Sustainable Technology margins. The government services contractor ought to benefit from the long-term shift to clean energy solutions.**

**Regulatory Wins:-**

A recent Supreme Court ruling that narrowed the scope of what the Environmental Protection Agency (EPA) can define as a body of water was a positive development for the construction industry. This was a win for various trade groups, as the EPA’s final rule was estimated to cost up to $1 million an acre for site development. The proposed debt ceiling agreement may also help the industry on the margins. According to media reports, government permitting decisions will be quicker and only one agency is now expected to lead environmental reviews on projects. The lengthy permitting process on these road and clean energy projects has delayed work and added to costs. In addition, the Mountain Valley Pipeline project will be fast-tracked after years of regulatory uncertainty. MasTec currently has equipment prepared to resume construction on the natural gas pipeline that is 95% complete.

**Construction Data:-**

The Architecture Billings Index (ABI) reading for April, a leading economic indicator for nonresidential construction activity, showed a decline for billings. Billings remain below the important ABI score of 50, which indicates a contraction. Design contracts also ticked back below 50. The fallout from the regional banking turmoil is starting to increase financing costs. Meanwhile, The Associated Builders and Contractors backlog slightly rose in April and builder sentiment appears to be more positive, despite high interest rates, the banking turmoil, and elevated material and labor costs.

**New Addition** This week we welcome one stock to the E&C Industry. Sterling Infrastructure provides construction services to a number of end markets. It builds data centers and e-commerce distribution facilities. The transportation unit also constructs and repair bridges, roads and highways. The company’s backlog has shifted to a higher margin work with large e-commerce and data center customers.

**Outlook:-**

The commercial building sector certainly looks like an area that will continue to experience weakness. AECOM has some exposure here, primarily in New York and Los Angeles. The regional banking turmoil will create financing problems, as these banks represent around 80% of commercial lending in the United States. Remote work and higher financing rates will increase costs and lower future cash flows on these projects. The long-term outlook is a bit more favorable. There should be plenty of work in the areas of life sciences, advanced manufacturing, renewable infrastructure, and road transportation projects. The U.S. government has also passed large infrastructure laws over the last two years that should support bidding pipelines and backlog growth. The government is also ramping up investments in rural broadband and wireless telecom providers are hiking capital budgets to build out their 5G networks. Conclusion The E&C Industry is highly cyclical, and earnings can really fluctuate due to construction mishaps or poor weather conditions. A recession is traditionally not good for this sector, but most of these companies should hold up better this economic cycle given the increased government funding for multiple industries. Many of these contractors expect to sustain annual top-line growth in the 5%-10% range over the 3- to 5-year investment horizon. We still like KBR over the long haul. Jacobs’ recent announcement that it will spin off its critical mission unit may unlock shareholder value. As always, we recommend investors evaluate each individual report before committing capital.

**Michael Collins, CFA**

* + **Recommend**: X Hold or, Challenge w/better \_\_, Sell\_\_\_