Industrial Services

E&C Update: Weak Sentiment Drives Meaningful Rallies, Downgrade MYRG

Negative sector sentiment since late March produced meaningful rallies on "in-line" earnings reports as E&Cs are benefiting from exposure to later-cycle (and global) markets, driving modest sequential backlog growth. While our sense is that sentiment remains somewhat subdued for most E&C stocks and valuation is well below historical levels, we are somewhat cautious of subsequent gains given noticeable weakness in shorter-cycle industrials in recent months. Nonetheless, the sentiment trade on generally healthy fundamentals should remain enough, for now.

- **Relief rallies.** Shares of E&C stocks have rallied more than 11% since mid-July (versus 3.6% in the S&P 500) including an average move of ~7% (for those that moved higher) on the day of 2Q12 earnings reports. We attribute the rally to highly negative investor sentiment since late March, with the group previously one of the worst performing sectors YTD.
- **Backlog moved modestly higher in aggregate, but decelerated from recent quarters** and continues to have a lack of clear direction. While large bookings at several of the largest firms drove aggregate TTM backlog higher, average raw orders across the space trended a bit lower with book/burn ratios falling modestly below 1x (on an organic basis) and remain choppy. Full-year earnings expectations (and our estimates) remained mostly unchanged.
- **Key late-cycle markets drove bookings (and management conviction)**, including a resurgent Oil & Gas market (the Canadian oil sands in particular), chemicals (particularly domestically), and LNG (global, though perhaps with modest delays in Australia). Comments on mining scope advances now suggest modest delays; however, emerging backlog developments suggest progress in previous dormant markets (Transportation and Power).
- **Valuation still relatively depressed but cautious on the "longer cycle."** While sentiment remains relatively subdued for most E&C stocks with the group trading at roughly ~5.7x FTM EBITDA and ~11.9x earnings, well below typical mid-cycle levels closer to 8x/15x and previous post-2008 recovery averages of 6.0x/14.0x, respectively, our sense is that investors are unlikely to assign multiple expansion absent a more positive view of the longer cycle.
- **Downgrading MYRG from Outperform to Neutral. Our best ideas are FLR, MG.** Recognizing very strong post-2Q12 performance, decreasing earnings growth visibility, and high consensus expectations, **we are downgrading MYRG from Outperform to Neutral.** Our best ideas post-2Q12 earnings are **FLR** (conservative guidance, increased backlog diversity, upwardly biased margins, valuation) and **MG** (attractive secular thesis, valuation, seemingly conservative guidance) though we also continue to recommend (and are incrementally positive on) **JEC** and **URS**.

Prices as of 08/16/12

Ticker	Price	Mkt Cap (mil)	Rating Current / Prior	Target Current / Prior
ACM	$19.46	$2,135	O/A	$25
FLR	$54.53	$9,237	O/H	$65▲ / $62
JEC	$40.88	$5,282	O/A	$47▲ / $45
MG	$21.63	$625	O/H	$26
MYRG	$20.41	$431	▼N/H / O/H	$23▲ / $21
PWR	$25.08	$5,345	N/H	$26
SHAW	$41.81	$2,755	N/S	$46
TTEK	$26.85	$1,724	O/A	$32
URS	$38.79	$2,882	O/H	$45

Sources: Bloomberg and Baird Data

Please refer to Appendix - Important Disclosures and Analyst Certification

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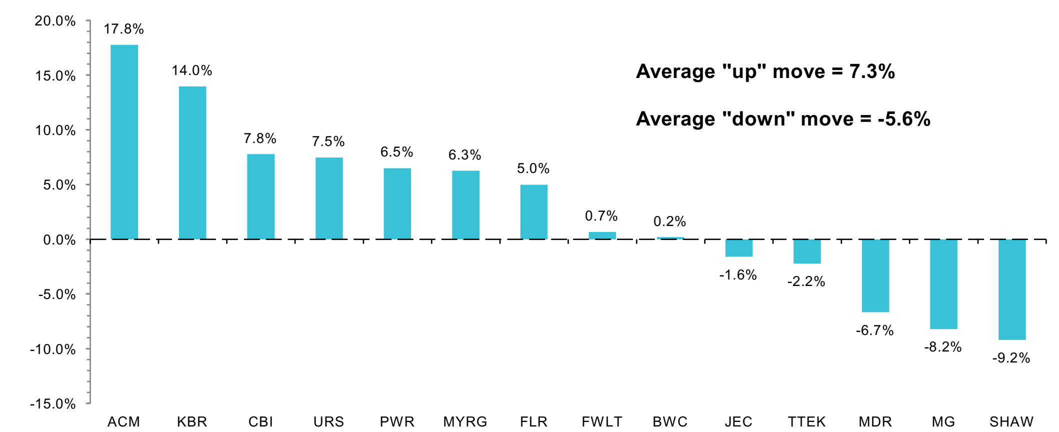
Prices as of 08/16/12	Market Cap (mil)	Rating	Target	F2011	F2012	F2013
COMPANY TICKER - PRICE		Current Prior	Current Prior	Current Prior	Current Prior	Current Prior
AECOM Technology Corporation **ACM - $19.46**	**$2,135**	**O/A**	**25**	**2.33**	**2.29**	**2.59**
Fluor Corporation **FLR - $54.53**	**$9,237**	**O/H**	**65▲** 62	**3.40**	**3.91**	**4.44**
Jacobs Engineering Group Inc. **JEC - $40.88**	**$5,282**	**O/A**	**47▲** 45	**2.60**	**2.91**	**3.25**
Mistras Group, Inc. **MG - $21.63**	**$625**	**O/H**	**26**	**0.61**	**0.76**	**0.93**
MYR Group Inc. **MYRG - $20.41**	**$431**	**▼N/H** O/H	**23▲** 21	**0.87**	**1.54▲** 1.48	**1.57▲** 1.37
Quanta Services Inc. **PWR - $25.08**	**$5,345**	**N/H**	**26**	**0.62**	**1.25**	**1.53**
Shaw Group Inc. **SHAW - $41.81**	**$2,755**	**N/S**	**46**	**(0.86)**	**2.07**	**2.66**
Tetra Tech, Inc. **TTEK - $26.85**	**$1,724**	**O/A**	**32**	**1.43**	**1.64**	**1.97**
URS Corporation **URS - $38.79**	**$2,882**	**O/H**	**45**	**3.52**	**4.10**	**4.48**

Details

E&C Investment Thesis - Valuation Suggests Moderate Overweight

Following a strong start to the year, negative E&C sector sentiment since late March drove valuations towards post-2009 recovery lows ahead of 2Q12 earnings amidst resurgent macro concerns and high levels of economic uncertainty. This weak sentiment led to meaningful rallies on "in-line" earnings report, however, with the sector outperforming the market (S&P 500) by 7.6% since mid-July as E&C companies benefit from what appears to be still generally healthy later-cycle markets, posting modest sequential backlog growth in 2Q12. Indeed, the dramatic share response to E&C earnings reports was a stand-out phenomenon in 2Q12, particularly when measured against lackluster reports (see chart below).

One Day Share Price Response to 2Q12 Earnings Report

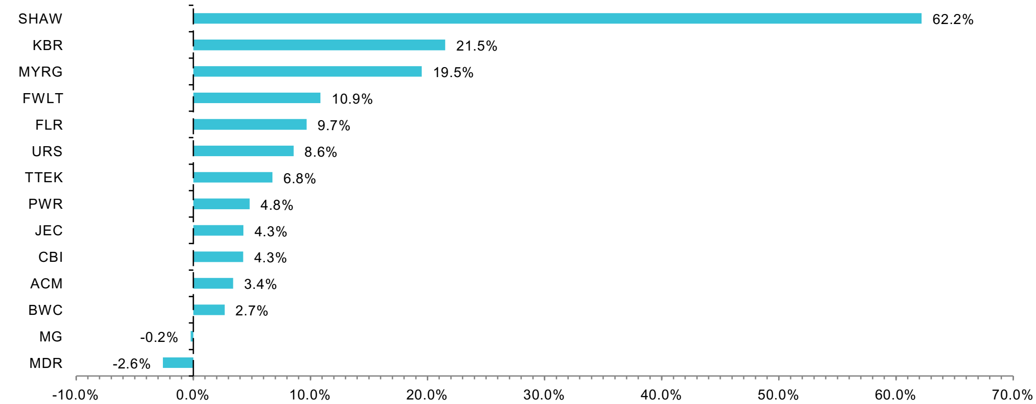


Source: Factset Research Systems, Baird Research

Net, our sector call is little changed from our 1Q12 earnings recap in May. While macro concerns and cautious sentiment likely continue to dominate performance, the sector's still relatively depressed valuation (versus history, but not versus post-2009 lows), particularly when measured against reasonably set expectations (in our view), positive commentary and investment actions from the major integrated oil and gas and mining majors, and Baird's proprietary backlog model, continue to support a modestly-constructive sector outlook, justifying an overweight position (and our Outperform-rated bias across our coverage.)

Indeed, supporting this outlook we highlight still-depressed sentiment, even post-2Q12 earnings, as a potential opportunity for longer-term investors. Recognizing this dynamic, even minor improvement in the macroeconomic outlook could lead to rapid achievement of positive alpha for the group through multiple expansion, similar to gains seen over the last month. Indeed, strong stock performance has continued post-earnings (see second chart below), and we believe provides an important dynamic of the sector's investability today. Thus, we remain keenly focused on shorter-cycle trends as an early read into strength of the longer-cycle, which we view as critical to a (cyclical) E&C investment.

Share Price Performance Since Last Earnings Report Date (excludes date of earnings report)



Note: SHAW performance reflects CBI's proposed $46 purchase price offer in late July

Source: Factset Research Systems, Baird Research

Multiples in the sector also remain fairly modest, slightly below post-2009 averages and well below longer-term historical levels. Indeed, the E&C group is now trading at roughly ~5.7x EBITDA and 11.9x earnings. Depending on one's view of the cycle, we note that prior 'mid-cycle' levels (which is the view that most E&C management teams seem to have taken and which we are inclined to agree with, given our view of the data) have historically suggested a "fair" EBITDA multiple in the 7-8x range, with the sector's current valuation only modestly above recent troughs of ~5x EBITDA and below post-2008 averages of ~6.0x. On this basis, we believe multiples have ample expansion potential should the cycle continue. In addition, our out-year (2013-2014) estimates could also push higher should backlog continue to grow, a dynamic likely to drive multiple expansion as well (setting a virtuous cycle for the stocks).

Despite the potential positives, however, we note some remaining risks, leaving us cautious of espousing a more bullish position with greater conviction. In particular, we note that 2Q12's backlog, while showing modest sequential growth, took a step back from 1Q12's much stronger growth rate. Recent commodity price declines (though now reversed from recent troughs) and macro concerns remain and are holding back multiple expansion. With Chinese demand slowing and Federal budget sequestration reaching near-term culmination, sustainability of the cycle are top of mind and we can easily envision a scenario of "more pushouts" and a long-lasting FEED cycle that only slowly develops into EPC conversion for the space, leaving multiples stranded in their recent 3+ year limbo.

Still, recognizing the negatives, we have enough conviction to remain Outperform-rated across most of our list and continue to recommend accumulation for longer-term investors.

DOWNGRADING MYRG FROM OUTPERFORM TO NEUTRAL

Recognizing very strong post-2Q12 performance (the stock is up 19.5% since the report), somewhat lower earnings growth visibility (resulting from a greater reliance on smaller project work), and high consensus expectations well above our expectation, we are downgrading **MYRG** from Outperform to Neutral. While we like **MYRG**'s exposure to an attractive end market (electric transmission) with decent visibility over the next several quarters, as well as the company's solid balance sheet, and strategy focused on organic rather than acquisitive growth, the shifting mix at the company towards smaller projects increases risk, in our view, due to a reduction in visibility as well as potential for more modest margins in the future. That said, it does appear that MYRG's current project backlog is high quality, high margin work, but industry commentary suggests, broadly, a switch to smaller projects in the future.

Consensus expectations appear to assign little risk to this issue and appear to assume a margin higher than our comfort level in 2013. Consensus estimates are assuming 13% EPS growth in 2013, despite falling backlog. While the company has noted that they are seeing a greater percentage of "book and burn" business which would support the achievement of a higher EPS, all else equal, we believe the lower visibility presents increased risk and is contemplated in our revised rating.

While our estimates could prove too conservative (we have increased our EPS estimate to $1.54 and $1.57, respectively, for 2012 and 2013 from $1.48 and $1.37 previously versus the Street's $1.54 and $1.74 - our price target also moves from $21/share to $23/share), we believe it's increasingly likely that estimates must reset lower, which could present the next buying opportunity for the stock. Moreover, despite being lower than consensus, we believe our estimates reflect a high operating level for the company with high revenues supported by margins at the high end of historic levels. The performance should generate healthy cash which could be funneled back to shareholders though a new buyback program. Unfortunately, our view contemplates only modest earnings growth from today's high absolute levels.

MYR Group Estimate Changes ($M)

	2011A	**2012E**		**2013E**	
		New	Old	New	Old
Revenue	**$780.4**	**$1,009.1**	**$993.1**	**$1,049.5**	**$1,000.3**
Consensus		*$993.8*		*$1,054.0*	
EBIT	**$29.7**	**$53.2**	**$51.4**	**$54.5**	**$47.8**
Margin	3.8%	5.3%	5.2%	5.2%	4.8%
EPS	**$0.87**	**$1.54**	**$1.48**	**$1.57**	**$1.37**
Consensus		*$1.54*		*$1.74*	

Source: Thompson FirstCall and Baird Research

We'd like to see MYRG continue to work through some of its existing backlog to demonstrate the consistent margin potential inherent in its book of business (recent margin performance has been volatile) as last quarter was very strong on the margin front. Should we become more comfortable with the sustainability of recent margin gains our estimates could become biased higher providing a better pathway to future earnings growth and multiple expansion than currently offered.

We do recognize the stock's discounted trading multiple of just 12.9x NTM PE versus a historical average of 17.8x; however, we believe significant multiple expansion may prove difficult if consensus estimates prove too aggressive. We also caution that the stock's historical multiple (MYRG has only been traded since 2008) contains, perhaps, some historical upward bias when measured against previous expectations for the strong earnings performance being realized today (and thus a premium historical multiple.) Looking forward, however, our expectation is for substantially less earnings growth, and therefore suggesting a discount to the historical average. Accordingly, should estimates reset to more comfortable levels, we could again change our view.

OUR BEST E&C IDEAS ARE FLUOR (FLR) AND MISTRAS GROUP (MG)

Our best ideas post-2Q12 earnings are **FLR** (conservative guidance, increased backlog diversity, upwardly biased margins, valuation) and **MG** (attractive secular thesis, valuation, seemingly conservative guidance) though we also continue to recommend (and are incrementally positive on) **JEC** and **URS.**

On the flip side, we have turned somewhat more cautious on ACM, noting that the initial euphoria surrounding the company's F3Q12 earnings report and impressive free cash flow generation dissipated once the 10-Q was published several days later, revealing that roughly 25% of the company's DSO improvement was driven by securitization of receivables which was not highlighted on the company's conference call (despite significant investor interest in the FCF improvement). While we do believe the company has made strides towards a greater cash focus throughout the organization, we are a bit suspect of the stock's nearly 18% surge on the earnings report, particularly given little progress on fundamentals, with organic growth rates still trending flat (and Federal concerns a remaining headwind).

OTHER E&C IDEAS FOR THE LONGER-TERM INVESTOR: JEC/TTEK/URS

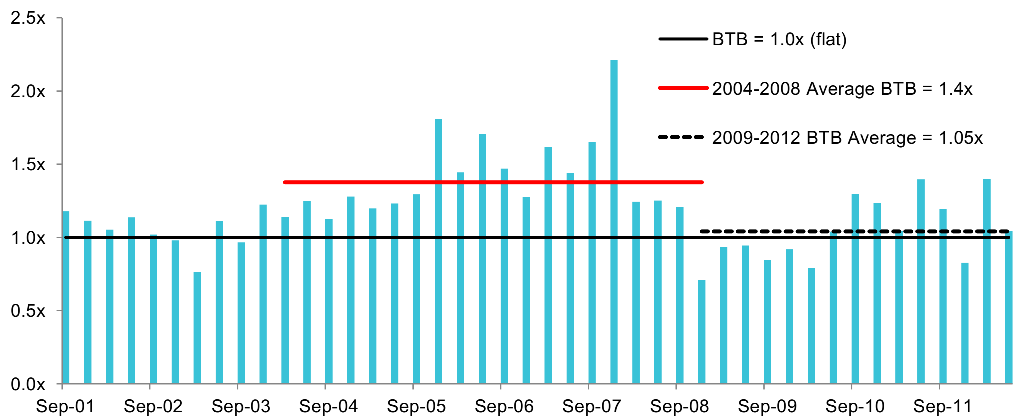
Finally, we continue to recommend **JEC, URS** and **TTEK** as part of our broader cycle/sector call, noting all three companies consistency and generally lower-risk business models relative to peers, with new growth avenues in energy, mining, and internationally. While valuation at JEC and TTEK (but not URS) leaves comparatively less upside than some more depressed peers (necessitating sector multiple expansion), we believe investors with longer-term investment horizons are likely well served at current levels, recognizing discounted valuation relative to a longer history, and what appears to be good growth dynamics over the medium term.

In the sections that follow, we provide additional data points on the cycle, our portfolio positioning, 2Q12 earnings season, and an elaboration on our investment theses for our covered E&C companies with links to additional commentary post-2Q12 earnings.

E&C Cycle Update - 2Q12 Orders Mixed But Backlog Modestly Higher

- **2Q12 orders fail to establish trend, backlog mixed.** New orders were mixed in 2Q12, though several larger firms' bookings drove aggregate sector backlog (smoothed, TTM levels) modestly higher. The equally-weighted average book-to-burn ratio for the industry held flat at just 1.0x (from 1.4x in 1Q12 - see top chart), suggesting little meaningful movement in the trend, however. For perspective, we note that in the previous cycle, bookings remained strongly above 1x from 2004-2008. After bottoming in 2009, orders have struggled to establish a trend, either positively or negatively, with an average book-to-burn ratio of just 1.05x since late 2009 (see chart).

E&C Industry Book to Burn Ratio (Orders / Revenue)

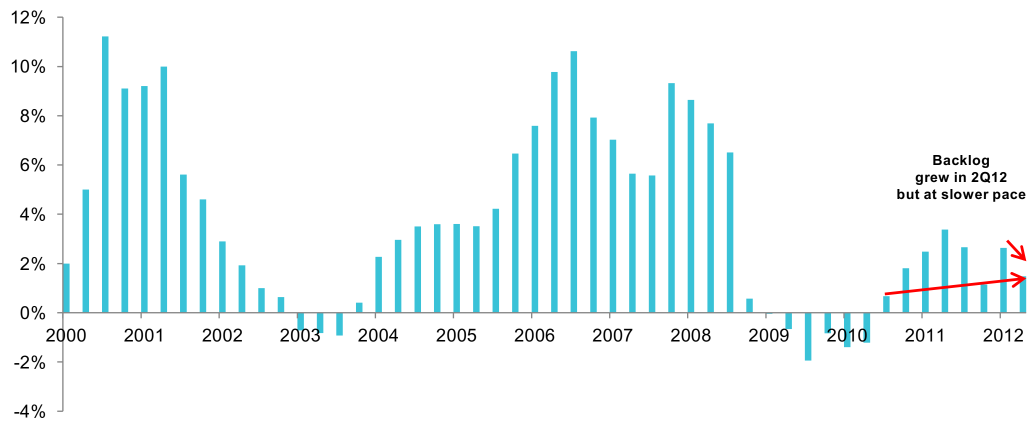


Note: The Index includes: ACM, BKR, BWC, CBI, GVA, FLR, FWLT, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: Company reports and Baird Research

- **Baird E&C Backlog Index increases but rate of gains slow.** Baird's proprietary E&C Backlog Index (which is a rolling average trailing 12-month indicator) for the E&C group remained positive in 2Q12 though the pace of improvement moderated (+1.5%, versus +2.6% in 1Q12). We note that, historically, backlog has been quite volatile, complicated by the fact that public E&C companies have historically been highly acquisitive. Thus, we use a measure of smoothed backlog in the figure below by showing sequential growth over a rolling trailing 12-month period, with our backlog metric also adjusted for changes to the sample set resulting from M&A (where disclosed) and IPOs (to adjust for additions/deletions to our index).

Baird E&C Backlog Index (Sequential Backlog Growth, TTM average)



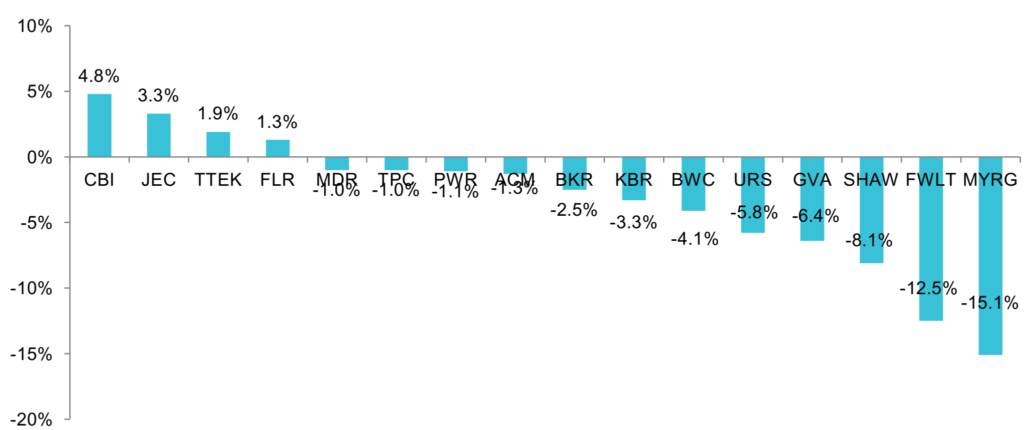
Note: The Index includes: ACM, BKR, BWC, CBI, GVA, FLR, FWLT, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

The figure includes smoothed TTM sequential backlog growth for US public E&C companies, organic (where disclosed)

Source: Company reports and Baird Research

- **Finally, we highlight much more mixed performance across the space in 2Q12 versus the previous two quarters.** The figures below provide a summary of sequential and YOY backlog changes of publicly-traded U.S. E&Cs in 2Q12. This quarter we saw much narrower growth with only four out of 16 companies in our E&C universe posting positive sequential backlog growth (versus 11 in 1Q12 and 8 in 4Q11) and YOY growth roughly evenly split positive and negative (see first two charts below). This dynamic largely parallels the above trends.

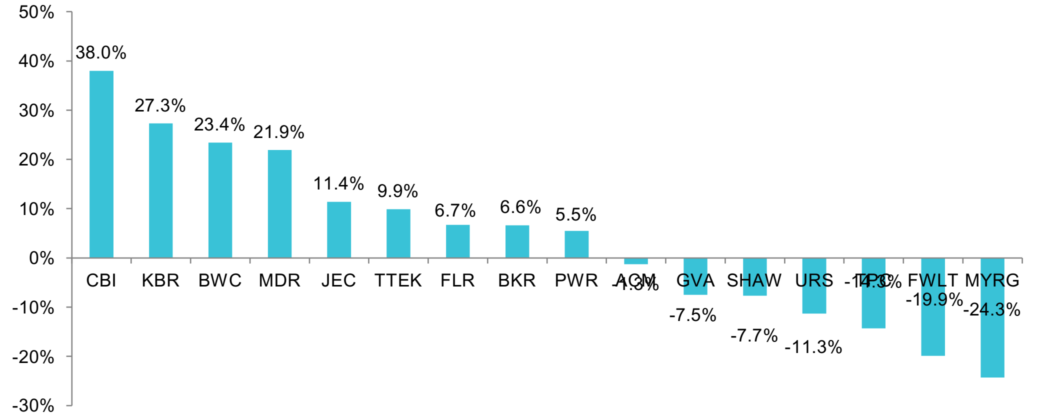
E&C Sequential (QOQ Change) Backlog Growth: 2Q12 (organic, where disclosed)



Note: Figures reflect most recently reported fiscal quarter and thus may not be directly comparable

Source: Company reports and Baird Research

E&C Backlog Growth (YOY Change): 2Q12 (organic, where disclosed)



Note: Figures reflect most recently reported fiscal quarter and thus may not be directly comparable

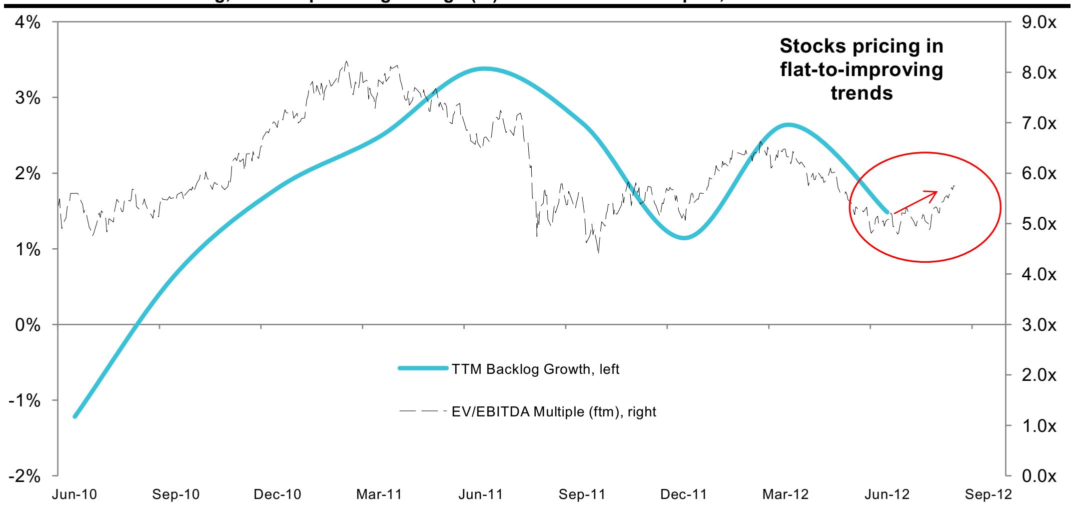
Source: Company reports and Baird Research

- **Strength benefited from later-cycle market exposure.** While major booking expectations remain somewhat back-end loaded (if not pushed into 2013) and should benefit from later cycle expansion, we are somewhat cautious of subsequent gains given noticeable weakness in shorter-cycle industrials throughout 2Q12 earnings season.

Backlog Is Trending Higher At A Reduced Rate

- **Market ascribing only modest growth expectations in current valuation levels**. Throughout the current cycle, sector valuation has been a leading indicator of subsequent backlog performance (and thus future earnings growth) for the sector. Indeed, the strong sell-off in the sector we began to see in late March (and through 2Q12) accurately predicted this quarter's more modest backlog performance. Assuming the market remains an accurate predictor of subsequent quarterly performance, investors are now expecting "flattish" trends to continue in 3Q12 with perhaps modest improvement (see below).

U.S. Public E&C Backlog, TTM Seq Backlog Change (%) vs. EV/EBITDA Multiples, FTM

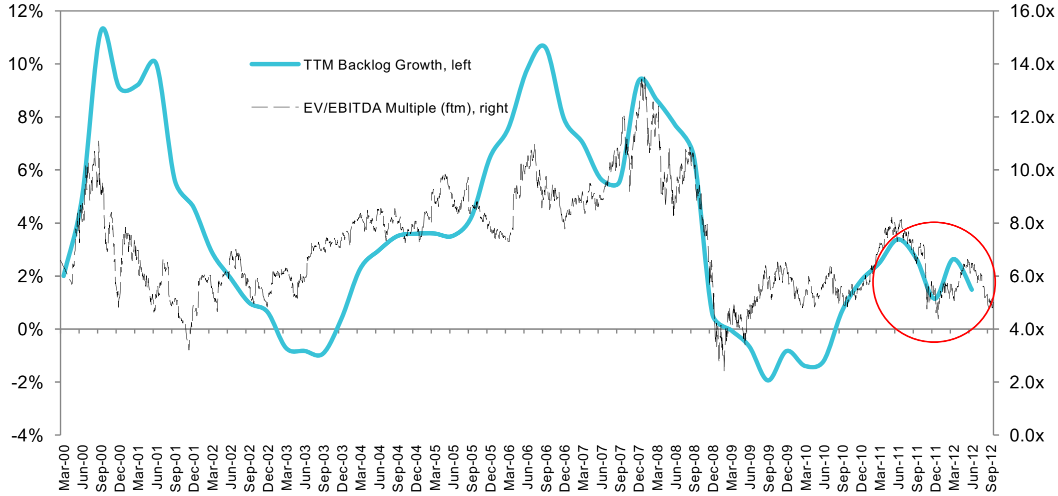


Note: The Index includes: ACM, BKR, BWC, CBI, FLR, FWLT, GVA, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: Baird Research, FactSet Research Systems, Company reports

- **Historically, backlog improvement has been a key driver of multiples in the space.** The chart below plots the trend in backlog growth against forward EV/EBITDA multiples since 2000. We prefer EV/EBITDA as our valuation metric in the space, given significant non-cash distortion of GAAP earnings driven by purchase price accounting anomalies related to high amortization expense of acquired intangibles (backlog). That said, for reference, we also include the relationship between backlog and earnings multiples (second chart), which demonstrates a similar relationship.

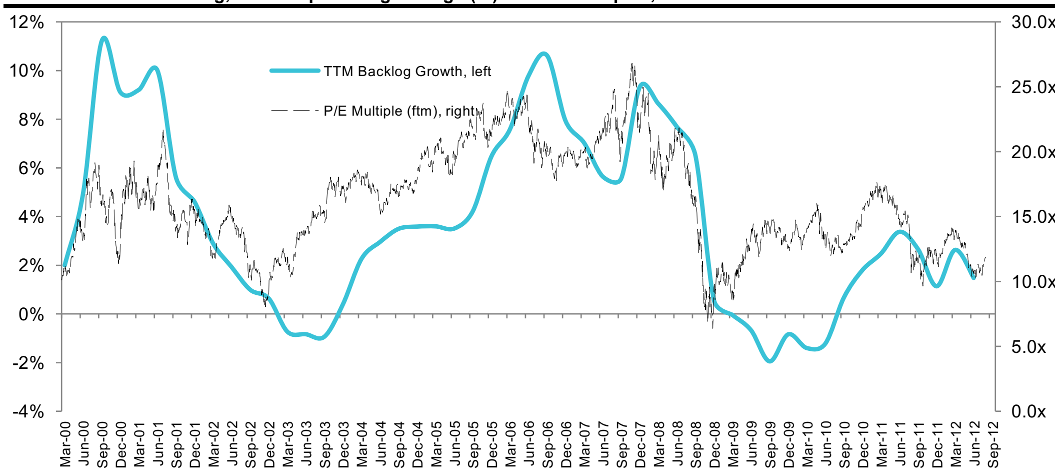
U.S. Public E&C Backlog, TTM Seq Backlog Change (%) vs. EV/EBITDA Multiples, FTM



Note: The Index includes: ACM, BKR, BWC, CBI, FLR, FWLT, GVA, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: Baird Research, FactSet Research Systems, Company reports

U.S. Public E&C Backlog, TTM Seq Backlog Change (%) vs. P/E Multiples, FTM

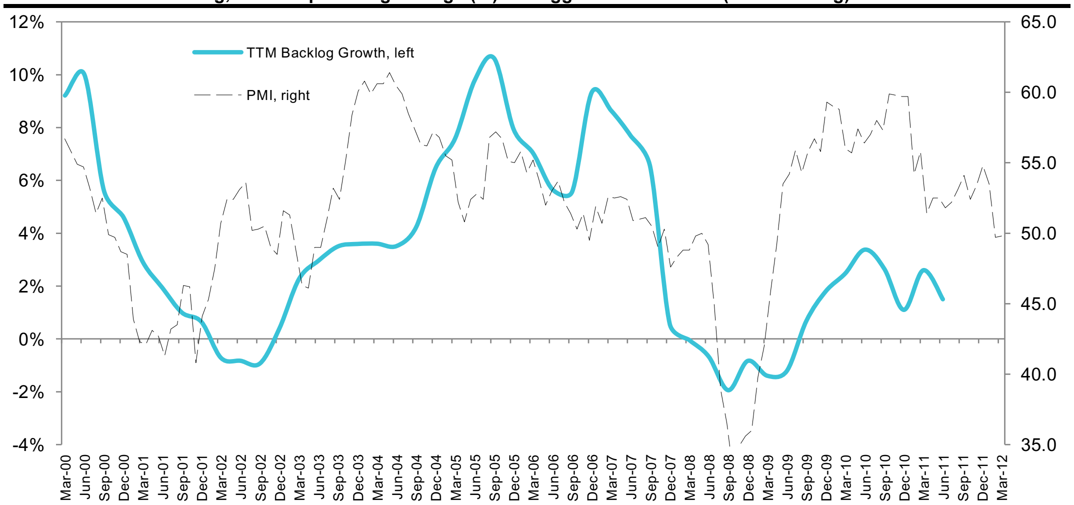


Note: The Index includes: ACM, BKR, BWC, CBI, FLR, FWLT, GVA, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: Baird Research, FactSet Research Systems, Company reports

- **Finally, we note the sector's late-cycle exposure with early cycle trends suggesting caution.** Recognizing the E&C sector's generally later cycle exposure, we compare historical E&C backlog growth to the U.S. Purchase Manufacturing Index (PMI). Interesting, we note very high directional correlation at a roughly one-year lag (in other words, the relationship below maps 1Q12 E&C TTM backlog to 1Q11 PMI values). This relationship leaves us somewhat cautious of subsequent gains, noting the PMI's recent declines, though do note the E&C sector's broad international exposure limits the direct read from a US-focused data set (though we highlight that international PMIs have been heading lower as well).

U.S. Public E&C Backlog, TTM Seq Backlog Change (%) vs. lagged US PMI Index (12-month lag)

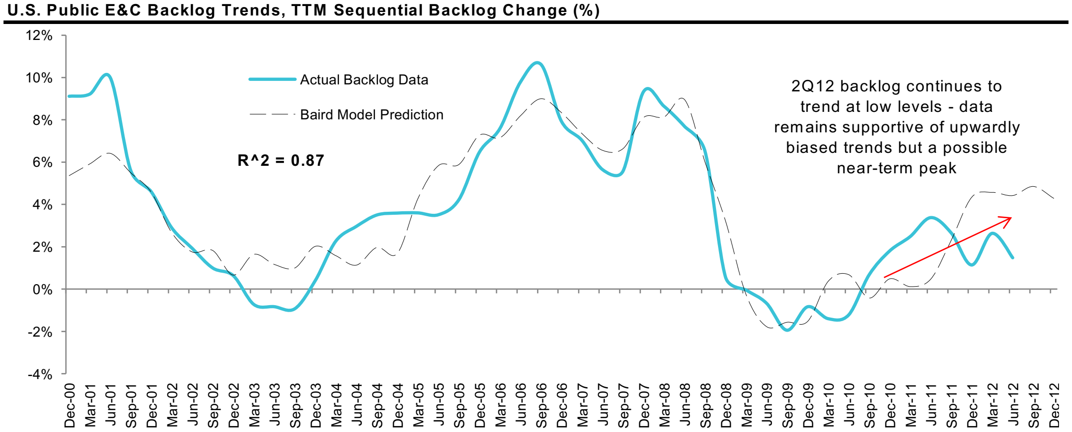


Note: The Index includes: ACM, BKR, BWC, CBI, FLR, FWLT, GVA, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: Baird Research, FactSet Research Systems, Company reports

- **Baird's proprietary backlog forecasting model suggests backlog still biased higher, however.** Based on our latest model, updated for recent movements of its inputs, we continue to see backlog biased higher over the near term.
  - **We caution that our model considers trends on a rolling 12-month basis and thus may not respond rapidly to changes in economic conditions and/or sentiment.** In addition, as we've previously highlighted, the rolling TTM estimates of our model inflate our near-term forecasts. This dynamic is becoming increasingly apparent as backlog has shown evidence of being, at least for the moment, at or near a peak.
  - **We also note that we do not attempt to forecast our model's inputs.** Thus, should conditions change relative to current levels, our model's inputs would be recalibrated, leading to, perhaps, a different directional outcome. However, because most of the inputs are lagged in time, assumptions to inputs only impact the model's output several quarters in the future.

U.S. Public E&C Backlog Trends, TTM Sequential Backlog Change (%)



Source: Baird Research; Company reports

- **Predictive power has been directionally robust, lending support.** Recall, our proprietary backlog model is designed to project trends in backlog growth across public U.S. E&C firms. We employ a five-factor multiple regression model which demonstrates an R^2 of 0.87 with historical TTM backlog growth in the sector since 2000. The model is statistically significant at the 5% level with all five factors individually statistically significant. For perspective, our multi-variable regression model incorporates common E&C project drivers such as oil prices, funding sources, and other construction and macroeconomic indicators. The chart below highlights the predictive success of our model since its introduction last year. history.

- **Importantly, in back-testing our model, we've found the parameters to accurately forecast turning points in trends.** Our model is currently forecasting a potential "peak" backlog in 2013, with the rate of growth in our forecasted index falling sequentially for the first time this cycle (see 2Q12 estimate, below).

Baird Backlog Model Historical Performance

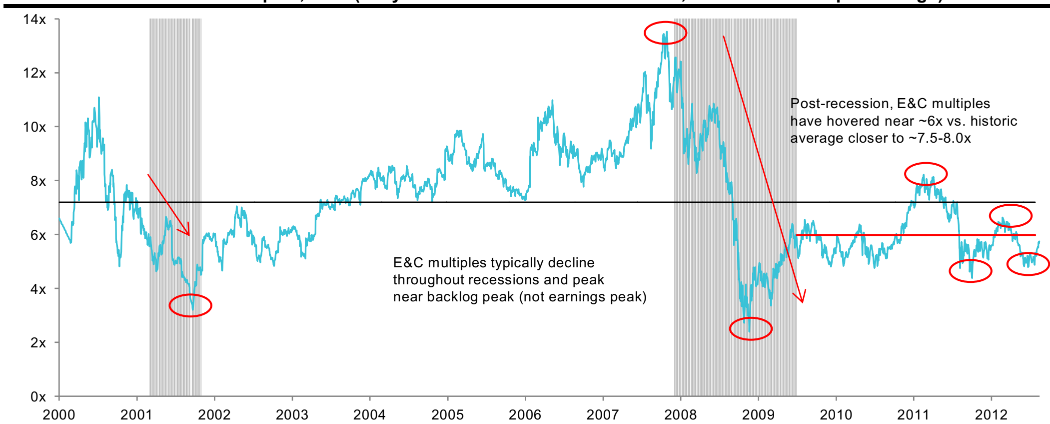
	Baird Forecast	Actual Value	Variance
1Q11	1.80%	2.50%	0.70%
2Q11	3.00%	3.40%	0.40%
3Q11	4.20%	2.70%	-1.50%
4Q11	4.90%	1.10%	-3.80%
1Q12	5.10%	2.60%	-2.50%
2Q12	4.40%	1.50%	-2.90%

Source: Baird Research

Valuation Recovering From Recent Bottom

- **Valuation still relatively depressed but limited conviction in the "longer cycle."** While sentiment remains relatively subdued for most E&C stocks with the group trading at roughly ~5.7x FTM EBITDA and ~11.9x earnings, well below typical mid-cycle levels closer to 8x/15x and previous post-2008 recovery averages of 6.0x/14.0x, respectively, our sense is that investors are unlikely to assign multiple expansion absent a more positive view of the longer cycle.
  - **Net, we view current valuation as attractive assuming cycle continues.** That said, our conviction in multiple expansion is somewhat tempered (relative to our 1Q12 recap), given slowing activity across remaining Industrial verticals. We now see sector multiples biased upward towards ~7-7.5x (from ~8.0x in our previous view) should awards accelerate with downside to ~5x (unchanged) should the cycle be nearing its completion. Within this framework, we believe E&Cs offer a risk-adjusted bias higher, suggestive of a modestly overweight position.

E&C Index EV / EBITDA Multiples, FTM (Grey bars indicate NBER recessions, Black line = sample average)

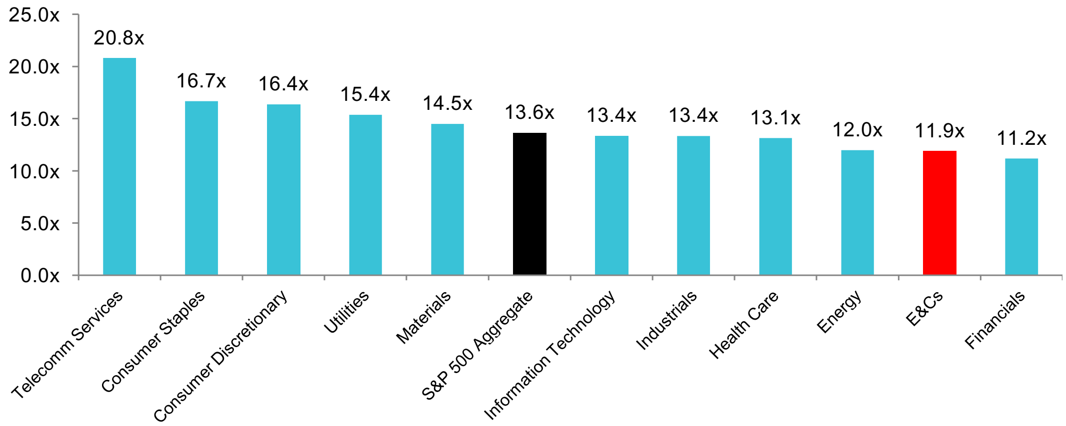


Note: The Index includes: ACM, BKR, BWC, CBI, FLR, FWLT, GVA, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: FactSet Research Systems

- Similarly, we note that the sector continues to trade at a fairly steep discount to the broader market (as well as the to the industrials sector, specifically) on a PE basis. Previously (in early 2012), the group was trading at a modest premium.

S&P Market Sector Valuation, P/E (ftm)



Note: The E&C Index includes: ACM, BKR, BWC, CBI, FLR, FWLT, GVA, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: FactSet Research Systems and Baird estimates

- We provide a more detailed summary of current individual valuation multiples across the space below.

E&C Industry Valuation

Company	Ticker	Price	Price Target	Rating	MktCap ($M)	EV/EBITDA, ftm FTM	EV/EBITDA, ftm AVG	P/E, ftm FTM	P/E, ftm AVG
Babcock & Wilcox	BWC	$26.90	NR	NR	$3,160	8.8x	7.3x	13.3x	15.4x
Stantec Inc.	STN-CA	$32.39	NR	NR	$1,468	8.0x	8.1x	12.1x	13.2x
Jacobs Engineering	JEC	$40.88	$47	O	$5,208	7.4x	8.9x	12.9x	16.7x
Tetra Tech	TTEK	$26.85	$32	O	$1,704	7.4x	8.5x	14.1x	16.9x
Foster Wheeler	FWLT	$20.00	NR	NR	$2,141	6.6x	7.7x	10.4x	13.8x
URS Corp.	URS	$38.79	$45	O	$2,927	6.3x	5.9x	8.7x	13.6x
AECOM	ACM	$19.46	$25	O	$2,170	6.2x	7.2x	7.7x	11.3x
Chicago Bridge & Iron	CBI	$37.96	NR	NR	$3,612	6.1x	6.8x	11.3x	13.6x
Shaw Group	SHAW	$41.81	$46	N	$2,720	5.8x	8.6x	13.0x	nm
Fluor Corp.	FLR	$54.53	$65	O	$8,946	5.8x	7.5x	12.7x	15.2x
KBR Inc.	KBR	$27.85	NR	NR	$4,035	5.6x	5.5x	9.6x	15.1x
McDermott	MDR	$11.69	NR	NR	$2,717	4.7x	7.8x	11.3x	22.8x
Michael Baker	BKR	$23.30	NR	NR	$226	4.2x	4.9x	13.3x	12.3x
					Average:	6.4x	7.3x	11.6x	15.0x

	FY1	Avg.
S&P 500:	13.6x	16.4x
S&P 500, Industials:	13.4x	17.0x

As of 08/16/2012; AVG = 5-year average

Source: FactSet Research Systems and Baird estimates

Specialty Contractors Valuation

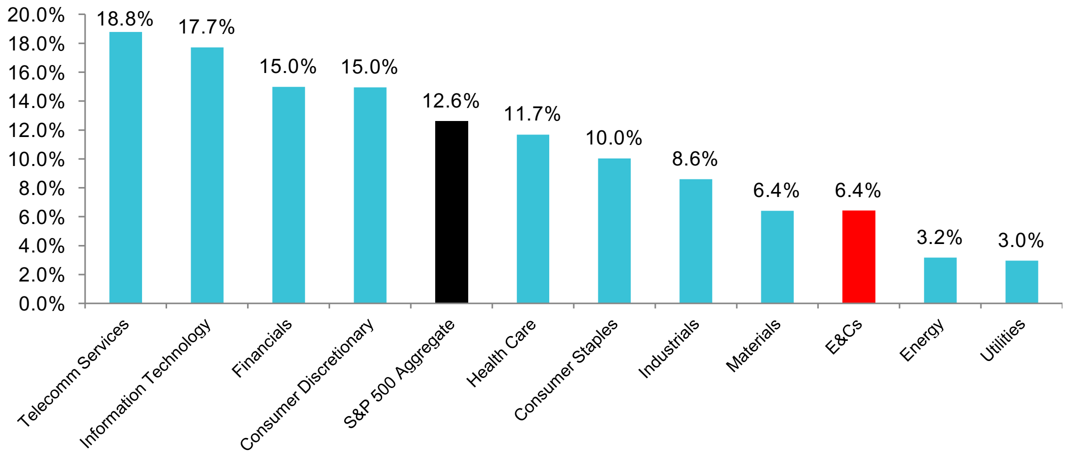
Company	Ticker	Price	Price Target	Rating	MktCap ($M)	EV/EBITDA, ftm FTM	EV/EBITDA, ftm AVG	P/E, ftm FTM	P/E, ftm AVG
Quanta Services	PWR	$25.08	$26	N	$5,182	8.0x	10.4x	18.1x	23.8x
Mastec Corp.	MTZ	$19.06	NR	NR	$1,400	5.7x	7.2x	11.4x	12.1x
Dycom Inc.	DY	$19.22	NR	NR	$624	5.1x	5.4x	13.5x	20.9x
MYR Group	MYRG	$20.41	$23	N	$405	4.9x	7.0x	12.9x	17.8x
Pike Electric	PIKE	$8.48	NR	NR	$296	4.5x	7.0x	17.4x	29.3x
Wilbros Group	WG	$5.70	NR	NR	$272	4.3x	5.9x	19.2x	NA
					Average:	5.4x	7.1x	15.4x	20.8x

As of 08/16/2012; AVG = 5-year average

Source: FactSet Research Systems and Baird estimates

- **YTD E&C stock performance has underperformed the broader market and most sectors, potentially creating opportunity for value investors.** Finally, we note the YTD underperformance of the sector. Recent performance (since mid-July) has been much stronger. E&Cs also underperformed the S&P 500 and the broader industrials group in 2010 and 2011.

S&P Market Sector Stock Performance (YTD)



Note: The E&C Index includes: ACM, BKR, BWC, CBI, FLR, FWLT, GVA, JEC, KBR, MDR, MYRG, PWR, SHAW, TPC, TTEK, and URS

Source: FactSet Research Systems

Key Themes from 2Q12 Reporting Season

We summarize key company earnings results and other data from 2Q12 earnings in the chart below.

2Q12 E&C Earnings Summary

	Quarter	Earnings	Backlog QoQ	Backlog YoY	Guidance	Commentary
ACM	F3Q12	missed	-1.3%	-1.3%	maintained	Improved FCF coupled with highly negative sentiment sparked rally; organic growth trends holding flat
FLR	2Q12	beat	1.3%	6.7%	raised	Oil and gas complex coming through, offsetting mining; more positive on Power/Infrastructure
JEC	F3Q12	beat	3.3%	11.4%	maintained	Good cost controls regain confidence; endorses "trend" 15% EPS growth led by oil/chemicals
MYRG	2Q12	beat	-15.1%	-24.3%	N/A	Improved margins complemented (still) very strong revenue. Backlog declines still a concern.
PWR	2Q12	beat	-1.1%	5.5%	raised	Good quarter led by Pipelines (electric/telecom remain strong); continue to see good momentum
SHAW	F3Q12	missed	-8.1%	-7.7%	maintained	Messy quarter with additional project and divestiture charges; Progress nuclear contract delayed
TTEK	F3Q12	beat	1.9%	9.9%	raised	Strategic shift to increased commercial/international mix drove results/outlook; dividend pot. on table
URS	2Q12	beat	-5.8%	-11.3%	raised	Better-than-expected Flint EPS accretion; Outlook constructive on Flint/oil sands; Legacy URS flat

Other US E&C companies (not covered)

	Quarter	Earnings	Backlog QoQ	Backlog YoY	Guidance	Commentary
CBI	2Q12	beat	4.8%	38.0%	raised	Good quarter, bullish commentary. Australian LNG transitioning to NA petrochemical/storage/export
KBR	2Q12	beat	-3.3%	27.3%	raised	Strong quarter on Hydrocarbons performance (project incentives/cost recoveries). Federal pressured
FWLT	2Q12	missed	-12.5%	-19.9%	maintained	Weak quarter impacted by higher (unbilled) proposal costs; bullish on NT awards in petrochem/SAGD
GVA	2Q12	missed	-6.4%	-7.5%	lowered	Public sector margins pressured; More positive on U.S. transportation market post highway bill
TPC	2Q12	missed	-1.0%	-14.3%	lowered	Large goodwill writedown impacted quarter; noted award delays from economic and political conditions
MDR	2Q12	in line	-1.0%	21.9%	maintained	Improved quarter (no meaningful charges) though 2013 concerns remain
BKR	2Q12	missed	-2.5%	6.6%	N/A	Higher unbilled labor expense and Federal pricing pressure drove EPS miss
BWC	2Q12	in line	-4.1%	23.4%	N/A	Generally in-line qtr led by environmental control eqipment and after-market environmental sales
MTZ	2Q12	beat	-6.3%	8.7%	raised	Pipeline business performing much better-than-expected (shales). Won new electric transmission work

Note: Backlog reflects sequential / YOY **organic** backlog growth (if disclosed)

Source: Baird Research and company reports

SECTOR THOUGHTS

We further summarize key sector thoughts and emerging trends from 2Q12 earnings calls below.

- **U.S. "re-industrialization" aided by low gas prices.** Conference calls remain disproportionately focused on the US opportunity set, particularly from benefit of low-cost natural gas chemical feedstock (shale basins) and derivative applications, including infrastructure (pipelines, roads), petrochemical applications, the potential for a domestic LNG export market, and the Canadian oil sands. Importantly, our sense is that this market has moved faster than expected, with several large domestic chemical complex contracts awarded in recent weeks. We previously saw this opportunity as more of a 2013 dynamic. Management teams appeared equally surprised by the pace of activity.

- **Transportation market may see a boost from new Highway bill.** While the new Federal highway bill, MAP-21, does not increase the dollar value of annual Federal highway transit matching funds, the increased funding visibility (through F2014) relative to the one to three month extensions the industry has been working on for the past 2+ years, could shake loose projects that have been delayed until a bill emerged. Commentary was broadly incrementally positive on the market, though our sense is that this euphoria reflects management optimism versus tangible in-hand projects at this point and is likely attributed primarily to timing, with several "megaprojects" all seemingly likely to hit at the same time. That said, we highlight the domestic transportation market as arguably the most directionally improved end market in 2Q12, at least anecdotally.

- **Federal sequestration still a risk but difficult to handicap.** Federal pressures remain top of mind with margin erosion and delayed procurement cycles potentially exacerbated by the upcoming US election cycle (and "fiscal cliff"). Interestingly, E&C management teams continue to describe the market as "flat" though nearly all firms described their ability to grow based on "share gains." Stating the obvious, we find it difficult to envision "flat" growth, noting potential for automated budget cuts and the simple truism that not all firms can be net share gainers. Still, the market shift is likely to be much more gradual than in other, more cyclical industries.

- **Mining slowdown now likely fully priced-in.** While a slowdown in mining capex has been well articulated since early 2012, E&C management teams were much more open about the potential for (and in some cases, already occurring) mining slowdown, noting customer conversations suggestive of a more measured approach to future development timelines. Indeed, our sense is that the conversation has shifted from "capex" to "sustaining capex," with several companies highlighting their ability to "save their customers' money" across their global asset portfolio. Importantly, other markets are picking up the slack, potentially offsetting any further mining weakness, which we believe is now largely priced into the stocks. Subsequent large booking awards would therefore likely be viewed quite positively and could serve as catalysts (we point to FLR's Simandou project in Guinea as one particular example).

- **Power market still coming, but still waiting.** The Power market is slowly advancing though progress has been slow, with little immediate catalyst ahead of the U.S. election and the pending Supreme Court decision on CSAPR's stay. We continue to see the power market as an eventual catalyst for the sector and 2013 is likely to be a much more active year, but point to a few positive signs in 2Q12, including an EPC award for a new combined-cycle gas plant at FLR and several emission control contracts at BWC and URS. CBI's proposed acquisition of SHAW also validates the longer-term thesis and we note a bit more positive commentary from FLR on the company's 2Q12 conference call and subsequent Analyst Day in New York City. We look for awards to continue to be announced slowly over the next year.

Additional Market Observations - Comments from 2Q12 Earnings

CHEMICALS

- "Chemicals is just as good as it can be. We have these low-cost feedstocks driving tremendous growth." (JEC)
- "Shale gas production, or liquids rich gas, has also resulted in a surge of new petrochemical projects in the US...The market for petrochemicals is also increasing in Russia" (CBI)
- "We are [seeing awards] in the ethylene and the chemical value chains" (KBR)
- Still seeing an active FEED market in ethylene and gas-to-liquids projects - EPC scope expected in 2013 (FLR); JEC announced an EPC contract for a net petrochemical complex in August
- Framework agreements with major petrochemical producers continue to be highlighted (FLR)
- Heavy concentration of work expected to be in the US (universal commentary)

LNG

- US export market potential now seen as a major potential investment theater (3-5 year time horizon)
- "We see some very meaningful projects over the next year, as LNG development in Australia and the United States move forward and new regions, particularly East Africa, start getting some traction" (CBI); FLR also highlighted the US and Africa as opportunities at the company's August Analyst Day
- Seeing modest labor cost pressures in Australia, delaying timelines (though appears to be more pronounced on incremental project work versus legacy contracts)
- "The next 12 to 18 months, let's say Australia and the U.S. would be my top picks [for LNG activity] just given the maturity of the developments" (KBR)
- "With respect to LNG, we have been very active over the last couple of quarters in preparing and actually qualifying to bid on several of the programs in the Asia-Pacific region' (FLR)

OIL & GAS: DOWNSTREAM (REFINING)

- "Refining is actually improving. We are seeing good crack spreads for the U.S. Gulf Coast and the West Coast and the refiners tend to spend cash flow on improvements." (JEC)
- "We have not seen the [downstream refining] base slow down. If anything, I think generally speaking, we think most of the developments have accelerated over the last year or two." (CBI)
- "[We] also see refining work in Russia and Europe" (FWLT)
- Big refining opportunities coming in South America (JEC/FLR/FWLT)

OIL & GAS: UPSTREAM

- "There is lots of activity up in the SAGD and oil sands market. It's strong, you might even say very strong." (JEC)
- 2Q12 Oil & Gas backlog growth was driven by a major booking in the Canadian oil sands (FLR)
- "I think we're kind of at the beginning of like I said last time of a pretty good cycle for Oil & Gas." (FLR)
- "Oil and gas saw a nice uptick for us and mining continue to be strong." (TTEK)
- "It's almost staggering the number of very large projects coming at us in the oil sands." (URS)

TELECOM

- Stimulus still viewed as biggest driver today, but providing visibility through 2012-2013 (MTZ, PWR)
- "I think right now we're at the height of stimulus construction and things are going really, really well and I don't anticipate that is going to lighten up any time soon." (PWR)

METALS AND MINING

- "Mining and minerals also very strong." (JEC)
- "We're also looking for larger acquisitions.....in metals and mining" (FWLT)
- "I think [mining] will continue to grow. I do believe that we've had several projects kind of move to the right or have been slowed" (FLR)
- "We're heavily in the mining market in Australia, we're watching that carefully, but right now we're still forecasting strong, strong results in Australia" (ACM)
- "We have seen a bit more impact on some of the juniors, so those doing exploration we've seen a bit of a slow down there. But we've not seen an impact on the front end work at the big majors." (TTEK)

POWER

- "Power generation markets globally are relatively weak" (FWLT)
- "We are seeing good opportunities emerging in power, with environmental and combined cycle projects that are now beginning to move forward...while not a big contributor to backlog growth during the quarter, we expect Power to see an increase in second half" (KBR)
- "The market for new power generation continues to struggle...[but] I think there is some, a couple of things converging that are going to cause a significant uptick in gas-fired power and I think we will be very active in that space [soon]." (FLR)
- "Over the next 12 to 18 months there is several new gas plants and we expect more to come, and we are also pursuing selected coal opportunities, international as well as supporting our Plant Service group with outage work so those markets look pretty favorable going forward and we are in a good position as we've indicated." (SHAW)
- "On the new generation side, the demand really hasn't presented itself yet in the economy." (URS)
- Small modular reactor nuclear work continues to advance, opportunity (BWC, FLR)
- Air quality control still cited as most active market at BWC, SHAW, and URS
- URS tempered Power revenue growth expectations in 2012 (though partially attributed to client scope changes)

ELECTRIC TRANSMISSION AND DISTRIBUTION

- Transmission still a major driver of investment and revenue growth at PWR, MTZ, MYRG - project mix continues to shift to smaller projects, however
- "Bidding activity for transmission projects is very active and we believe we are in a good competitive position." (MTZ)
- Electric distribution market described as stable-to-modestly better (MTZ, PWR) to still pressured and/or price sensitive (MYRG)
- EPA rules (coal-to-gas switching) seemingly not yet driving new transmission project activity, though this is seen as a longer-term opportunity (PWR)
- "Today, many large projects are being divided into smaller segments for bidding an award as opposed to a single award for the entire line. We expect the market for transmission projects of all sizes will continue to significantly expand over the next several years. We have seen an increase in bidding activity in the second quarter of 2012, compared to the first quarter of 2012 and expect this to continue throughout the year." (MYRG)

PIPELINES

- Gas gathering work in the domestic shale basins remains active; long-haul pipeline cited as a greater opportunity in 2013 (but conviction is building)
- "We are confident that the pipeline market affords us a great opportunity for future growth at attractive margin levels. Backlog has grown since quarter end and there continues to be significant bidding activity" (MTZ)
- "So the industry [pipeline construction] is doing – that market is doing great. Although there's a lot of work out there, there's a lot of activity." (MTZ)
- "We continue to see signs that a significant volume of long-haul, large-diameter projects could be awarded and moving to construction in 2013...We will continue to gain more clarity on these projects as we approach year-end." (PWR)

FEDERAL, STATE, AND LOCAL GOVERNMENTS

- "Environmental [Federal] work remains good" (JEC)
- "The bidding rate is pretty aggressive, especially as we roll up to the end of the government's fiscal year September 30." (TPC)
- Impact of Federal sequestration remains, genuinely, unknowable by covered E&Cs (ACM, FLR, JEC, URS). In general, however, our sense was greater management recognition of Federal margin compression and more limited work scope opportunities; commentary centered on "share gains" and "value offerings"
- Most Federal-exposed E&Cs see the market as "flat" in 2012 (ACM, URS, JEC, TTEK)

TRANSPORTATION/INFRASTRUCTURE

- "So I think you're looking at incremental improvement in the market on the highway side" (JEC)
- "You won't talk to anyone in our industry that won't tell you they've overwhelmed in the Civil industry with major transportation opportunities all over the U.S." (TPC)
- "I think the infrastructure bill will be helpful particularly around the TIFIA type of support that some of these programs require. But I think most of what we've seen is just a timing issue on bid slates. Obviously there are some very large programs out there that we are going to participate in and we are bidding right now and I feel confident that we'll show some success as we get towards the end of this year and early next year." (FLR)
- "We expect a new federal $105 billion transportation bill to promote and accelerate projects that have been put on hold, driving an increase in front-end engineering work and design." (ACM)
- Trend toward more design-build offerings and increased use of PPP funding continues
- Rail/transit remain relatively stronger markets versus highways

GEOGRAPHIC COMMENTARY

- Australia "megaprojects" are still keeping pace with development schedules
- Seeing more activity in South American refinery market (FWLT); FLR, JEC and TTEK also noted opportunity
- North America (US and Canada) arguably offering the greatest incremental award capacity near-term though emerging markets remain the longer-term growth vehicle

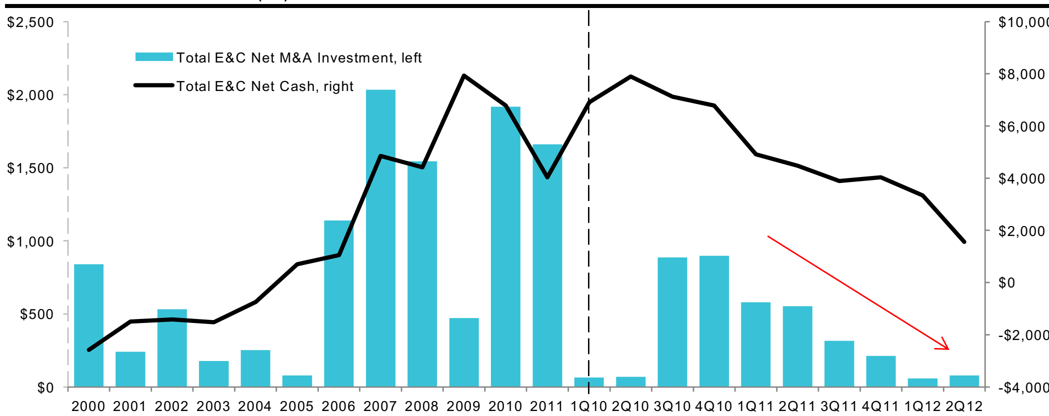
COMPETITIVE ENVIRONMENT

- "We're seeing slight increases in our pricing and in the markets and some markets better than others." (JEC)
- Continue to hear much less discussion regarding Asian competition
- Seeing an increasing amount of shift from/to fixed-price versus reimbursable work in Federal contracting
- FLR was clear to point out still ample excess capacity in the market at the company's Analyst Day

E&C Balance Sheet and M&A Update

- **Proposed CBI acquisition of SHAW dominates M&A landscape.** Amidst an otherwise uneventful M&A season, CBI's proposed acquisition of SHAW for $46/share (a 72% premium to the stock's pre-announcement closing price) dominated E&C M&A discussions. While most firms highlighted M&A has an ongoing component of use of cash, our sense is that discussions are perhaps less advanced than in previous quarters, with several management teams discussing still relatively high price expectations for private firms. In general, however, we expect slow consolidation among E&C firms to continue, particularly among smaller design firms (we highlight ongoing M&A activity at TTEK as an example of this trend).
  - We note as well that higher working capital needs have reduced excess cash capacity from previous (peak) levels in 2010. We believe this data point is also consistent with late cycle activity as, potentially, fewer subsequent customer cash advances are supporting the higher burn rate of previous bookings.

U.S. Public E&C M&A Investment ($M)



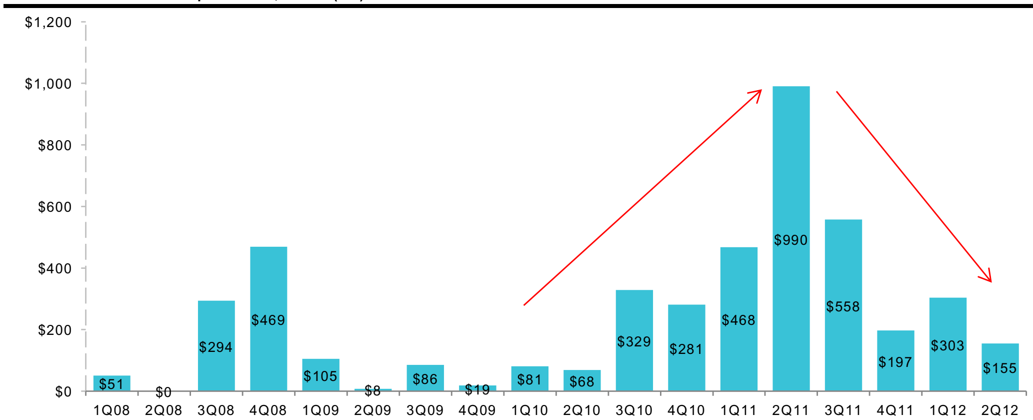
Source: Company reports, FactSet Systems

E&C Market Consolidation, US Design Revenue Only ($B)

Source: Engineering News-Record

- **Buybacks have slowed; odd, given valuation and management conviction in the cycle.** Continuing recent trends, share repurchase proved relatively modest in 2Q12, relative to the active buyback programs in 2011. While management teams continue to point to buybacks as an incremental use of cash, we question why we did not see more activity this quarter, particularly given the sectors steep declines, near-trough valuation, and ample (though reduced) excess cash.

U.S. Public E&C Share Repurchases, Gross ($M)



Source: Company reports, FactSet Systems

Coverage List Investment Theses and Valuation/Risks

Fluor Corp. (FLR-Outperform, $54.53, $65 price target).
A link to our 2Q11 recap note and current investment thesis can be found here.
A link to our recap of the company's August 2012 Analyst Day can be found here.

- **Bottom line: Improving backlog breadth, upwardly biased margins, conservative 2012 guidance and $10/share of net cash.** We continue to view FLR as well exposed to participate in a global capital expansion cycle, particularly within the energy, mining and petrochemicals markets. While mining may face headwinds, higher-margin areas of the business are showing life, with management maintaining good visibility into subsequent scope releases and a view of upward backlog bias, justifying our rating on depressed valuation. Net, while awards at Fluor are likely to remain lumpy, the cycle continues to advance, which should translate into good earnings growth into 2013.
  - Furthermore, investors continue to assign little credit to shares noting that FLR today trades at less than half 2008's levels despite today's 18% higher backlog (at record levels) and with 2012's earnings guidance bracketing prior cyclical peaks (and biased higher). Applying even discounted multiples to our estimates suggest meaningful upside to the stock with $10/share of net cash providing downside support through ongoing share repurchase activity.
  - Net, we see FLR as best-exposed geographically and by end market across our coverage list to participate in an improving E&C cycle.
- **Valuation.** Our revised 12-month $65 price target (from $62) assumes 6.4x our NTM EBITDA estimate 12 months from today at a discount to historical levels in the 7-8x range and only a modest premium to today's levels. We believe our multiple appropriately discounts a still uncertain macroeconomic environment but also reflects our bias that multiples should expand as the cycle matures (supported by recent backlog growth) with FLR deserving a premium to peers given the company's broader diversification, quality franchise, and exposure to higher-growth markets. Indeed the company's balance sheet remains very well capitalized with $10/share of net cash supporting valuation and providing capital for continued buyback activity.
- **Risks.** Risks to our recommendation include a highly competitive industry, economically sensitive end-market exposure, and large project concentration.

URS Corp. (URS-Outperform, $38.79, $45 PT)
A link to our 2Q12 earnings recap note and current investment thesis can be found here.

- **Bottom line: Flint provides basis for rating.** Our February upgrade reflected the stronger growth profile offered in Flint, adding a secular growth element to the consistent URS cash yield story. This thesis remains very much intact, particularly in the oil sands where Flint is now flexing capacity to take on additional (and larger projects), benefiting from the broader service capabilities of URS, with construction levels on pace to approach prior peaks this year. Applying even discounted multiples on our conservative estimates supports decent upside, supporting our Outperform rating. We look to gain confidence in numbers as the year progresses, however. We also note the increasing potential for a sizable EPC contract win related to the $1 billion (or more) repair of Progress Energy's Crystal River-3 reactor. More detail here.
- **Valuation.** Our $45 price target assumes a 9.6x earnings multiple on our FTM earnings estimate a year from today, a modest premium to current levels but still discounted versus the stock's five-year average (13.6x) and peer group multiples in the ~11x range today. However, given Flint's exposure to higher growth oil and gas markets (including the Canadian oil sands and North American shales) and the potential for stronger core URS earnings growth, we believe modest multiple expansion is

appropriate for the stock, noting as well that our below-consensus (and guidance) estimates suggest a modestly less expensive valuation, all else equal

- **Risks.** Risks to our recommendation include URS' exposure to economically sensitive end markets, M&A integration risk, a highly competitive industry, and limited global exposure.

Tetra Tech (TTEK-Outperform, $26.85, $32 PT)

A link to our F3Q12 recap note and current investment thesis can be found here and here.

- **Bottom line: International investments paying off.** Little change to our thesis as another beat-and-raise quarter validated TTEK's business model and the company's multi-year focus on higher-growth (and margin) private sector and international markets, offsetting a "flattish" Federal business. While valuation has recovered on recent solid execution, we note TTEK's lower-risk business model is still trading at comparable levels to similar premium E&C franchises despite our expectation for higher growth rates. Incremental, the potential for an initial dividend appears to be getting closer, with excess cash flow also in place to support TTEK's active M&A pipeline.
- **Valuation.** Our $32 price target assumes a premium multiple of 8x our FTM EBITDA estimate but still discounted relative to the company's five-year average of 8.6x. While the multiple is relatively high versus peers (in the 6x range today), we note that the pattern is consistent with TTEK's historical 2-3x multiple premium relative to the group. Furthermore, we note that the lack of acquisitions in our model unfairly punishes valuation which we believe all else equal should support a higher multiple as an appropriate offset.
- **Risks.** Risks to our recommendation include Tetra Tech's exposure to economically sensitive end markets, a highly competitive industry, government regulations and funding cycles, and M&A integration risk.

AECOM Technology Corp. (ACM-Outperform, $19.46, $25 PT)

A link to our F3Q12 recap note and current investment thesis can be found here.

- **Bottom line: Enough catalysts for now but progress will need to continue and eventually drive a growth story again.** Net, with $3/sh of cash conversion potential at management's F2013 DSO target and with progress in F3Q12 FCF conversion spurring investor interest on (somewhat) depressed valuation, we see enough catalysts to support our Outperform rating, with improved management messaging and a more open dialogue with the Street providing a potential pathway to eventual multiple recovery. Still, flattish organic growth appears likely for the intermediate term and while margin expansion is planned, it will likely be slow to come with a Federal overhang unlikely to subside soon. We look to the company's initial F2013 guidance on the next earnings report as the next key data point
- **Valuation.** Our $25 price target reflects modest multiple expansion to 9.0x FTM earnings (6.3x EBITDA), a modest discount to peers trading in the ~11x range on average. We believe multiple expansion is justified, despite flattish operating trends, recognizing the progress on the company's cash conversion which, all else equal, suggests higher quality earnings and a modest multiple premium in our view. Longer-term, should AECOM deliver against management's 12% EBITDA margin targets by F2015 (not assumed in our model) and see momentum in the macro, we see upward bias to our estimates
- **Risks.** General risks for AECOM include a highly competitive industry, fixed-price contract exposure, exposure to economically sensitive markets, acquisition integration risk and joint venture exposure.

Jacobs Engineering (JEC-Outperform, $40.88, $47 PT)

A link to our F3Q12 recap note and current investment thesis can be found here.

- **Bottom line: We like the company's small project focus, solid risk management, and generally consistent execution within our overall positive sector recommendation.** While we recognize the difficult backdrop for industrials broadly, we highlight what appears to be good contract breadth at

JEC, steady spending trends, and new market opportunities internationally. Thus, while the stock's premium (versus peers) may necessitate some sector multiple expansion for outperformance, we continue to recommend JEC for longer-term, GARP-oriented investors.

- **Valuation.** Our revised $47 price target (from $45) reflects modest multiple expansion to 8.0x FTM EBITDA, and 13.9x earnings. We note that the stock is trading at a slight discount to its historical average of 8.6x EBITDA and 16.5x earnings today. With a return to trend EPS growth, we see this discount as likely to slowly close, with sector support an additional bonus should investor appetite swing towards a higher risk appetite. We note, however, that our multiple assumptions continue to assume a premium to other E&C peers, consistent with JEC's historical premium gap reflecting a generally lower-risk business model and consistent returns across cycles.
- **Risks.** A highly competitive industry, fixed-price contract exposure, macroeconomic sensitivity, M&A integration risk and JV exposure.

MYR Group (MYRG-Outperform, $20.41, $23 PT)
A link to our 2Q12 recap note and current investment thesis can be found here.

- **Bottom line: Consensus expectations may be too high.** Recognizing very strong post-2Q12 performance (the stock is up 19.5% since the report), somewhat lower earnings growth visibility (resulting from a greater reliance on smaller project work), and high consensus expectations well above our expectation, we are downgrading MYRG from Outperform to Neutral. While we like MYRG's exposure to an attractive end market (electric transmission) with decent visibility over the next several quarters, we'd like to see MYRG continue to work through some of its existing backlog to demonstrate the consistent margin potential inherent in its book of business (recent margin performance has been volatile) in-line with Street expectations. Should we become more comfortable with the sustainability of recent margin gains our estimates could become biased higher providing a better pathway to future earnings growth and multiple expansion than currently offered.
- **Valuation.** Our $23 price target assumes just 5.8x FTM EBITDA (but a bit richer 14.9x earnings), a discount to average (since IPO) levels of 7.0x (17.8x). We recognize multiple expansion against falling backlog (and potentially earnings) may prove challenging, thus believe a discounted multiple is appropriate at this time.
- **Risks.** Risks include a highly competitive industry, high customer concentration, regulatory risk, and fixed-price construction contract exposure.

Quanta Services (PWR-Neutral, $25.08, $26 PT)
A link to our 2Q12 recap note and current investment thesis can be found here.

- **Bottom line: Waiting for opportunity.** We like the momentum at Quanta today. Very good Electric performance should continue and we are on board with the Pipeline opportunity set being substantial. We continue to believe investors are best served taking positions on weakness, not on strength, particularly given the stock's premium valuation today. In addition, while we are encouraged by 2Q12's Pipelines improvement, management acknowledged a margin differential between shale work and long-haul pipeline which could hold back the segment's profitability until we see larger pipeline awards materialize (visibility in which could increase near end of year).
- **Valuation.** Our $26 price target reflects 8.0x EBITDA and 16.5x PE, multiples which are consistent with today's trading levels but well above peer levels, recognizing the upward bias to numbers should the Pipeline segment realize "normalized" margins (management sees Pipeline has capable of low double-digit EBIT margin contribution), comparable to other segments, and should activity levels remain elevated in remaining verticals.
- **Risks.** Risks include a highly competitive industry, state/federal regulatory changes, fixed-price contracts and acquisition integration risk.

The Shaw Group (SHAW-Neutral, $41.81, $46 PT)
A link to our F3Q12 recap note and current investment thesis can be found here.
A link to our view of CBI's proposed buyout can be found here.

- **Bottom line: CBI takeout more appropriately values the franchise but "not closed yet."** In July, CBI announced a definitive agreement to acquire SHAW for $46/share ($41/sh in cash and $5/sh [0.12883 shares] in CBI stock) or $3.03 billion, a 72% premium to SHAW's pre-announcement closing price. The purchase price implies an enterprise value of ~$1.7 billion, or 6.1x our F2012 EBITDA estimate and ~5.0x our F2013 EBITDA estimate (17.2x earnings; ~10.0x cash-adjusted at end of year expected cash). While both companies' Boards have unanimously approved deal terms, closure requires ultimate shareholder approval with CBI's recent share performance arguably reflecting investor discontent (SHAW shares also reflect a wide spread to CBI's proposed offer). We also point to SHAW's still pending (though largely concluded) sale of its E&C division to Technip, as a necessary precondition for CBI. Our $46 price target is consistent with CBI's offer price and we view a topping offer as unlikely. The deal is expected to close in early 2013.
- **Valuation.** Our $46/share price target is consistent with CBI's proposed offer (we note CBI's equity purchase contribution assumes a CBI conversion of 0.12883 shares of CBI stock at $38.81 per share of SHAW stock; at current levels, the conversion factor would technically value SHAW at $45/share) reflecting our view that the deal will eventually close as proposed. A competitive offer is unlikely, in our view.
- **Risks.** Primary risk to our price target reflects risk that CBI's proposed offer does not close as planned. For our SHAW estimates, however, we highlight risks from SHAW's comparatively (versus other E&Cs) higher fixed-price contract exposure, economically sensitive end markets, and Westinghouse GAAP earnings volatility as well as new nuclear uncertainty for project demand and execution risk.

Mistras Group (MG-Outperform, $21.63, $26 PT)
A link to our F4Q12 recap note and current investment thesis can be found here.

- **Bottom line: Attractive long-term growth story with secular support / barriers to entry.** Net, very little change in our outlook. While the quarter was perceived somewhat negatively as organic growth moderated and margins took a hit, both appear to be mostly one-time issues (though could carry a bit into F1Q13), with initial F2013 guidance suggesting no change to the long-term thesis of double-digit top-line growth supported by margin expansion opportunities. With a view to continued 20%+ EPS growth, a conservative bias to guidance and valuation much more reasonable, we remain buyers.
- **Valuation.** Our 12-month, $26 price target assumes 9.0x FTM EBITDA and 23.9x forward earnings, a premium to current levels but near the mid-point of our historical peer group range of 6-10x (but a modest discount to European peers as described above). With no change to long-term growth expectations and F2013 guidance providing a view into near-term 20%+ EPS growth, we see our valuation assumptions as well defended.
- **Risks.** Risks to our price target include MG's exposure to economically sensitive end-markets (oil & gas), significant customer concentration, and trading liquidity /insider ownership risks.

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Date Printed: 8/16/2012
Year End: December

MYR Group
Annual Model

Income Statement	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**
Transmission and Distribution (T&D)	-	388,273	398,562	434,479	446,867	468,744	447,458	622,000	846,393	881,903
Commercial & Industrial (C&I)	-	120,427	136,695	175,835	169,240	162,424	149,619	158,356	162,676	167,556
Total Revenue	**322,096**	**508,700**	**535,257**	**610,314**	**616,107**	**631,168**	**597,077**	**780,356**	**1,009,069**	**1,049,459**
Contract Costs	293,812	457,287	476,901	540,868	525,924	555,261	526,357	694,740	894,362	931,044
Gross Income	**28,284**	**51,413**	**58,356**	**69,446**	**90,183**	**75,907**	**70,720**	**85,616**	**114,708**	**118,416**
Selling, general and administrative	34,575	37,438	40,880	45,585	50,622	48,467	44,630	56,776	61,933	64,651
Amortization of intangible assets	306	306	396	769	334	335	335	335	334	335
Gain on sale of property & Equipment	(475)	(855)	(444)	(768)	(813)	(418)	(750)	(1,174)	(763)	(1,021)
Other	-	16,618	-	26,513	-	-	-	-	-	-
Total Operating Expense	34,406	53,507	40,832	72,099	50,143	48,384	44,215	55,937	61,505	63,964
Operating Income										
Transmission and Distribution (T&D)	-	13,318	28,699	31,369	46,232	37,961	36,613	52,053	75,395	79,486
Commercial & Industrial (C&I)	-	1,018	5,264	10,007	16,672	11,609	7,091	5,883	6,834	7,541
Corporate Expense & Other	-	(16,430)	(16,439)	(44,029)	(22,864)	(22,047)	(17,199)	(28,257)	(29,025)	(32,576)
Total Operating Income	**(6,122)**	**(2,094)**	**17,524**	**(2,653)**	**40,040**	**27,523**	**26,505**	**29,679**	**53,203**	**54,451**
Interest Income	(194)	(469)	(1,527)	(1,234)	(1,001)	(218)	(58)	(53)	(25)	(81)
Interest Expense	23	18	340	1,694	1,701	852	1,054	544	795	842
Other Expense (Income)	119	343	212	153	212	208	144	81	123	128
Pretax Income	**(6,070)**	**(1,986)**	**18,499**	**(3,266)**	**39,128**	**26,681**	**25,365**	**29,107**	**52,310**	**53,563**
Taxes	(2,595)	6,624	7,548	(64)	15,495	9,446	9,243	10,759	19,907	20,354
Net Income	**(3,475)**	**(8,610)**	**10,951**	**(3,202)**	**23,633**	**17,235**	**16,122**	**18,348**	**32,403**	**33,209**
EPS	**($0.21)**	**($0.52)**	**$0.67**	**($0.19)**	**$1.14**	**$0.83**	**$0.78**	**$0.87**	**$1.54**	**$1.57**
Restructuring / Merger charges	-	-	-	-	-	-	-	-	-	-
Asset Write-offs	-	-	-	-	-	-	-	-	-	-
Other One-time Items & Discontinued Operations	(2,084)	(864)	-	-	-	-	-	-	-	-
GAAP EPS	**($0.34)**	**($0.58)**	**$0.67**	**($0.19)**	**$1.14**	**$0.83**	**$0.78**	**$0.87**	**$1.54**	**$1.57**
Diluted Shares	16,447	16,447	16,447	16,540	20,707	20,718	20,783	21,002	21,107	21,184
Basic Shares	16,447	16,447	16,447	16,540	19,713	19,293	19,883	20,151	20,344	20,428
Dividend	-	-	-	-	-	-	-	-	-	-
EBITDA	**-**	**-**	**23,344**	**7,862**	**50,974**	**40,840**	**42,651**	**49,109**	**77,704**	**79,543**
Change YOY	0.0%	0.0%	0.0%	-66.3%	548.4%	-19.9%	4.4%	15.1%	58.2%	2.4%
% of Sales	0.0%	0.0%	4.4%	1.3%	8.3%	6.5%	7.1%	6.3%	7.7%	7.6%

Margin Analysis	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**
Gross Margin	8.8%	10.1%	10.9%	11.4%	14.6%	12.0%	11.8%	11.0%	11.4%	11.3%
Incremental GM%	-2.5%	12.4%	26.1%	14.8%	358.0%	-94.8%	15.2%	8.1%	12.7%	9.2%
Operating Margin	**-1.9%**	**-0.4%**	**3.3%**	**-0.4%**	**6.5%**	**4.4%**	**4.4%**	**3.8%**	**5.3%**	**5.2%**
Incremental OM%	-8.7%	2.2%	73.9%	-26.9%	737.0%	-83.1%	3.0%	1.7%	10.3%	3.1%
Transmission and Distribution (T&D)		3.4%	7.2%	7.2%	10.3%	8.1%	8.2%	8.4%	8.9%	9.0%
Commercial & Industrial (C&I)		0.8%	3.9%	5.7%	9.9%	7.1%	4.7%	3.7%	4.2%	4.5%
SG&A Margin	10.8%	7.4%	7.7%	7.6%	8.3%	7.7%	7.5%	7.3%	6.2%	6.2%
Pretax Margin	-1.9%	-0.4%	3.5%	-0.5%	6.4%	4.2%	4.2%	3.7%	5.2%	5.1%
Tax Rate	42.8%	-333.5%	40.8%	2.0%	39.6%	35.4%	36.4%	37.0%	38.1%	38.0%
Net Margin	-1.1%	-1.7%	2.0%	-0.5%	3.8%	2.7%	2.7%	2.4%	3.2%	3.2%

Changes YOY	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**
Total Revenue	-18.1%	57.9%	5.2%	14.0%	0.9%	2.4%	-5.4%	30.7%	29.3%	4.0%
Total Organic Revenue	**-18.1%**	**57.9%**	**5.2%**	**14.0%**	**0.9%**	**2.4%**	**-5.4%**	**30.7%**	**29.3%**	**4.0%**
Transmission and Distribution (T&D)			2.6%	9.0%	2.9%	4.9%	-4.5%	39.0%	36.1%	4.2%
Organic			*2.6%*	*9.0%*	*2.9%*	*4.9%*	*-4.5%*	*39.0%*	*36.1%*	*4.2%*
Commercial & Industrial (C&I)			13.5%	28.6%	-3.8%	-4.0%	-7.9%	5.8%	2.7%	3.0%
Organic			*13.5%*	*28.6%*	*-3.8%*	*-4.0%*	*-7.9%*	*5.8%*	*2.7%*	*3.0%*
Gross Income	6.6%	81.8%	13.5%	19.0%	29.9%	-15.8%	-6.8%	21.1%	34.0%	3.2%
Operating Expenses	-11.2%	8.3%	9.2%	11.5%	11.0%	-4.3%	-7.9%	27.2%	9.1%	4.4%
Operating Income	-50.2%	-65.8%	-936.9%	-115.1%	-1609.2%	-31.3%	-3.7%	12.0%	79.3%	2.3%
Transmission and Distribution (T&D)			115.5%	9.3%	47.4%	-17.9%	-3.6%	42.2%	44.8%	5.4%
Commercial & Industrial (C&I)			417.1%	90.1%	66.6%	-30.4%	-38.9%	-17.0%	16.2%	10.4%
Pretax Income	NM	NM	NM	NM	NM	-31.8%	-4.9%	14.8%	79.7%	2.4%
Net Income	NM	NM	NM	NM	NM	-27.1%	-6.5%	13.8%	76.6%	2.5%
EPS	NM	NM	NM	NM	NM	-27.1%	-6.8%	12.6%	75.7%	2.1%

Backlog Analysis	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**
Transmission & Distribution (T&D)			183,200	133,900	243,400	133,200	428,994	612,200		
YOY % Change			0.0%	-26.9%	81.8%	-45.3%	222.1%	42.7%		
Commercial & Infrastructure (C&I)			92,900	82,700	72,600	71,200	91,948	80,600		
YOY % Change			0.0%	-11.0%	-12.2%	-1.9%	29.1%	-12.3%		
Total Backlog	**267,072**	**224,006**	**276,100**	**216,602**	**316,000**	**204,400**	**520,942**	**692,800**		
YOY % Change	121.1%	-16.1%	23.3%	-21.5%	45.9%	-35.3%	154.9%	33.0%		

Source: Company reports and Baird analysis

Please refer to "Appendix - Important Disclosures" and Analyst Certification

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Date Printed: 8/16/2012
Year End: December

MYR Group
Quarterly Model

Income Statement	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Transmission and Distribution (T&D)	118,025	139,662	170,849	193,464	204,998	215,816	214,354	211,225	215,609	235,112	223,625	207,557
Commercial & Industrial (C&I)	32,269	45,648	39,640	40,799	35,230	44,594	40,829	42,023	36,287	45,932	42,054	43,284
Total Revenue	**150,294**	**185,310**	**210,489**	**234,263**	**240,228**	**260,410**	**255,184**	**253,248**	**251,896**	**281,044**	**265,679**	**250,840**
Contract Costs	128,705	165,771	190,676	209,588	214,125	230,348	225,659	224,230	224,844	248,838	234,620	222,742
Gross Income	**21,589**	**19,539**	**19,813**	**24,675**	**26,103**	**30,062**	**29,525**	**29,018**	**27,052**	**32,205**	**31,060**	**28,099**
Selling, general and administrative	13,953	13,698	13,523	15,602	15,918	14,515	15,500	16,000	16,000	16,165	16,638	15,848
Amortization of intangible assets	84	83	84	84	84	83	84	84	84	84	84	84
Gain on sale of property & Equipment	(71)	(229)	(428)	(446)	(127)	(193)	(225)	(218)	(242)	(263)	(268)	(248)
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expense	13,966	13,552	13,179	15,240	15,875	14,405	15,359	15,866	15,842	15,985	16,453	15,684
Operating Income												
Transmission and Distribution (T&D)	13,543	11,832	11,273	15,405	16,812	20,911	19,506	18,165	18,113	22,310	20,797	18,265
Commercial & Industrial (C&I)	852	824	1,603	2,604	1,099	1,860	1,774	2,101	1,241	2,054	1,953	2,294
Corporate Expense & Other	(6,772)	(6,669)	(6,242)	(8,574)	(7,683)	(7,114)	(7,114)	(7,114)	(8,144)	(8,144)	(8,144)	(8,144)
Total Operating Income	**7,623**	**5,987**	**6,634**	**9,435**	**10,228**	**15,657**	**14,166**	**13,152**	**11,210**	**16,220**	**14,606**	**12,415**
Interest Income	(29)	(14)	(5)	(5)	0	1	(11)	(15)	(16)	(16)	(22)	(28)
Interest Expense	210	160	93	81	182	204	209	200	199	217	222	203
Other Expense (Income)	22	10	21	28	27	32	32	32	32	32	32	32
Pretax Income	**7,420**	**5,831**	**6,525**	**9,331**	**10,019**	**15,420**	**13,935**	**12,936**	**10,995**	**15,987**	**14,374**	**12,207**
Taxes	2,920	2,114	2,304	3,421	3,809	5,887	5,295	4,916	4,178	6,075	5,462	4,639
Net Income	4,500	3,717	4,221	5,910	6,210	9,533	8,640	8,020	6,817	9,912	8,912	7,569
EPS	**$0.21**	**$0.18**	**$0.20**	**$0.28**	**$0.29**	**$0.45**	**$0.41**	**$0.38**	**$0.32**	**$0.47**	**$0.42**	**$0.36**
Restructuring / Merger charges	-	-	-	-	-	-	-	-	-	-	-	-
Asset Write-offs	-	-	-	-	-	-	-	-	-	-	-	-
Other One-time Items & Discontinued Oper	-	-	-	-	-	-	-	-	-	-	-	-
GAAP EPS	**$0.21**	**$0.18**	**$0.20**	**$0.28**	**$0.29**	**$0.45**	**$0.41**	**$0.38**	**$0.32**	**$0.47**	**$0.42**	**$0.36**
Diluted Shares	20,934	20,978	21,041	21,053	21,087	21,094	21,114	21,134	21,154	21,174	21,194	21,214
Basic Shares	19,983	20,059	20,265	20,295	20,300	20,338	20,358	20,378	20,398	20,418	20,438	20,458
Dividend	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	**11,932**	**10,627**	**11,677**	**14,873**	**15,985**	**21,755**	**20,414**	**19,550**	**17,558**	**22,518**	**20,854**	**18,613**
Change YOY	37.1%	9.8%	14.2%	5.9%	34.0%	104.7%	74.8%	31.4%	9.8%	3.5%	2.2%	-4.8%
% of Sales	7.9%	5.7%	5.5%	6.3%	6.7%	8.4%	8.0%	7.7%	7.0%	8.0%	7.8%	7.4%

Margin Analysis	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Gross Margin	14.4%	10.5%	9.4%	10.5%	10.9%	11.5%	11.6%	11.5%	10.7%	11.5%	11.7%	11.2%
Incremental GM%	456.9%	6.3%	4.8%	3.6%	5.0%	14.0%	21.7%	22.9%	8.1%	10.4%	14.6%	38.2%
Operating Margin	**5.1%**	**3.2%**	**3.2%**	**4.0%**	**4.3%**	**6.0%**	**5.6%**	**5.2%**	**4.5%**	**5.8%**	**5.5%**	**4.9%**
Incremental OM%	207.3%	0.3%	0.7%	-0.4%	2.9%	12.9%	16.9%	19.6%	8.4%	2.7%	4.2%	30.6%
Transmission and Distribution (T&D)	11.5%	8.5%	6.6%	8.0%	8.2%	9.7%	9.1%	8.6%	8.4%	9.5%	9.3%	8.8%
Incremental %	48.8%	9.6%	4.6%	3.4%	3.8%	11.9%	18.9%	15.5%	12.3%	7.3%	13.9%	-2.7%
Commercial & Industrial (C&I)	2.6%	1.8%	4.0%	6.4%	3.1%	4.2%	4.3%	5.0%	3.4%	4.5%	4.6%	5.3%
Incremental %	9.9%	-6.9%	-0.1%	24.8%	8.3%	-98.3%	14.3%	-41.1%	13.4%	14.5%	14.6%	15.3%
SG&A Margin	9.3%	7.3%	6.3%	6.5%	6.6%	5.5%	6.0%	6.3%	6.3%	5.7%	6.2%	6.3%
Pretax Margin	4.9%	3.1%	3.1%	4.0%	4.2%	5.9%	5.5%	5.1%	4.4%	5.7%	5.4%	4.9%
Tax Rate	39.4%	36.3%	35.3%	36.7%	38.0%	38.2%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
Net Margin	3.0%	2.0%	2.0%	2.5%	2.6%	3.7%	3.4%	3.2%	2.7%	3.5%	3.4%	3.0%

Changes YOY	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Total Revenue	0.9%	32.1%	37.8%	51.0%	59.8%	40.5%	21.2%	8.1%	4.9%	7.9%	4.1%	-1.0%
Total Organic Revenue	**0.9%**	**32.1%**	**37.8%**	**51.0%**	**59.8%**	**40.5%**	**21.2%**	**8.1%**	**4.9%**	**7.9%**	**4.1%**	**-1.0%**
Transmission and Distribution (T&D)	14.8%	29.6%	44.5%	63.0%	73.7%	54.5%	25.5%	9.2%	5.2%	8.9%	4.3%	-1.7%
Organic	14.8%	29.6%	44.5%	63.0%	73.7%	54.5%	25.5%	9.2%	5.2%	8.9%	4.3%	-1.7%
Commercial & Industrial (C&I)	-29.9%	40.4%	14.7%	11.8%	9.2%	-2.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Organic	-29.9%	40.4%	14.7%	11.8%	9.2%	-2.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Gross Income	42.3%	16.9%	16.3%	13.2%	20.9%	53.9%	49.0%	17.6%	3.6%	7.1%	5.2%	-3.2%
Operating Expenses	33.4%	25.3%	24.0%	31.3%	15.2%	7.1%	15.8%	3.6%	1.6%	12.4%	8.4%	0.1%
Operating Income	61.8%	2.6%	6.9%	-3.2%	34.2%	161.5%	113.5%	39.4%	9.6%	3.6%	3.1%	-5.6%
Transmission and Distribution (T&D)	121.2%	34.9%	27.2%	19.8%	24.1%	76.7%	73.0%	17.9%	7.7%	6.7%	6.6%	0.5%
Commercial & Industrial (C&I)	-61.5%	-52.5%	-0.4%	69.9%	29.0%	125.7%	10.6%	-19.3%	12.9%	10.4%	10.1%	9.2%
Pretax Income	65.3%	4.3%	12.7%	-1.7%	35.0%	164.4%	113.6%	38.6%	9.7%	3.7%	3.1%	-5.6%
Net Income	61.9%	10.9%	8.2%	-2.9%	38.0%	156.5%	104.7%	35.7%	9.8%	4.0%	3.1%	-5.6%
EPS	60.3%	9.9%	6.8%	-3.9%	37.0%	155.1%	104.0%	35.2%	9.4%	3.6%	2.8%	-6.0%

Backlog Analysis	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Transmission & Distribution (T&D)	523,737	646,101	657,366	612,200	563,275	464,187						
QOQ % Change	22.1%	23.4%	1.7%	-6.9%	-8.0%	-17.6%						
YOY % Change	266.5%	420.7%	468.8%	42.7%	7.5%	-28.2%						
Commercial & Infrastructure (C&I)	80,196	70,838	64,012	80,600	76,625	78,780						
QOQ % Change	-12.8%	-11.7%	-9.6%	25.9%	-4.9%	2.8%						
YOY % Change	41.7%	-6.2%	-19.5%	-12.3%	-4.5%	11.2%						
Total Backlog	**603,933**	**716,939**	**721,378**	**692,800**	**639,900**	**542,967**						
QOQ % Change	15.9%	18.7%	0.6%	-4.0%	-7.6%	-15.1%						
YOY % Change	202.7%	259.1%	269.8%	33.0%	6.0%	-24.3%						

Source: Company reports and Baird analysis
Please refer to "Appendix - Important Disclosures" and Analyst Certification

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Date Printed: 8/16/2012
Year End: December

MYR Group
Balance Sheet

Assets	2007	2008	2009	2010	2011	2Q11	2Q12
Cash and cash equivalents	34,547	42,076	37,576	62,623	34,013	35,409	24,300
Accounts Receivable	99,570	94,048	100,652	107,172	126,911	99,742	154,171
Costs and estimated earnings in excess of billings	27,851	25,821	30,740	29,299	43,694	54,479	54,166
Construction materials inventory	-	-	-	-	4,003	-	-
Deferred income tax assets	10,110	10,621	10,186	10,544	13,253	10,544	13,253
Receivable for insurance claims in excess of deductibles	7,358	8,968	8,082	8,422	10,122	9,171	9,881
Refundable income taxes	5,136	145	3,036	2,144	884	2,198	-
Other Current Assets	2,315	3,731	3,308	3,719	3,071	2,928	2,679
Total Current Assets	**186,887**	**185,410**	**193,580**	**223,923**	**235,951**	**214,471**	**258,450**
Net PP & E	57,609	75,873	88,032	96,591	117,178	111,322	127,070
Goodwill and intangibles	58,807	58,473	58,138	57,803	57,468	57,636	57,301
Other Assets	2,488	2,307	1,899	1,831	1,971	1,384	1,948
Total Assets	**305,791**	**322,063**	**341,649**	**380,148**	**412,568**	**384,813**	**444,769**
Liabilities & Equity							
Current Portion of LTD	-	-	-	-	10,000	-	10,000
Accounts Payable	30,834	30,187	39,880	41,309	73,924	58,447	86,899
Billings in excess of costs	35,880	32,698	25,663	45,505	24,945	41,953	28,863
Accrued self insurance	30,409	32,881	33,100	34,044	38,850	35,046	38,338
Deferred Taxes	-	-	-	-	-	258	-
Other Current Liabilities	37,638	27,571	22,122	17,974	29,078	17,533	27,095
Total Current Liabilities	**134,761**	**123,337**	**120,765**	**138,832**	**176,797**	**153,237**	**191,195**
Long term Debt	30,000	30,000	30,000	30,000	-	10,000	-
Deferred income tax liabilities	8,662	12,429	15,870	17,971	19,354	18,017	19,354
Other Noncurrent Liabs	1,432	938	899	636	679	611	1,230
Total Stockholder's Equity	130,936	155,359	174,115	192,709	215,738	202,948	232,990
Total Liabs & SE	**305,791**	**322,063**	**341,649**	**380,148**	**412,568**	**384,813**	**444,769**

Balance Sheet Statistics	2007	2008	2009	2010	2011	2Q11	2Q12
Net Total Debt to Capital		-6.5%	-3.7%	-14.6%	-10.6%	-11.9%	-5.9%
Current Ratio		1.5	1.6	1.6	1.3	1.4	1.4
EBITDA / Gross Interest Expense		30.0	47.9	40.5	90.3	46.2	114.8
Debt/EBITDA (TTM)		0.6x	0.7x	0.7x	0.2x	0.2x	0.2x
Book Value per share		$7.50	$8.41	$9.25	$10.25	$9.67	$11.05
Tangible Book Value per share		$4.68	$5.60	$6.48	$7.52	$6.93	$8.33
Ending working capital / Annualized Sales		3.3%	5.1%	3.6%	3.8%	3.5%	5.1%
Ending Working Capital / TTM Sales		3.2%	5.6%	3.8%	4.5%	4.0%	5.6%
Asset Turnover		2.0x	2.0x	1.7x	2.1x	1.9x	2.3x
Cash & Equivs. / Annualized Sales		6.9%	5.4%	10.1%	3.6%	4.8%	2.3%
Receivable Days (Ending)		56	53	63	49	49	54
Accounts Payable Days (Ending)		21	24	28	32	32	34
Cash Cycle Days (Ending)		**35**	**29**	**35**	**17**	**17**	**20**
Receivable Days (Average)		57	56	64	55	54	49
Payable Days (Average)		21	23	28	30	30	31
Cash Cycle Days (Average)		**36**	**33**	**35**	**24**	**24**	**18**

Return on Average Equity	2007	2008	2009	2010	2011	2Q11	2Q12
Net Margin		3.8%	2.7%	2.7%	2.4%	2.8%	2.7%
Asset Turnover (S/A)		2.0	1.9	1.7	2.0	1.8	2.3
Leverage (A/E)		2.2	2.0	2.0	1.9	1.9	1.9
Return on Average Equity		16.5%	10.5%	8.8%	9.0%	9.5%	11.9%

Source: Company reports and Baird analysis
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Date Printed: 8/16/2012
Year End: December

MYR Group
Cash Flow Model

Quarterly Statement of Cash Flows	2008	2009	2010	2011	2012E	2013E	2Q11	2Q12
Cash Flow from Operating Activities								
Net Income	23,633	17,235	16,122	18,348	32,405	33,209	3,717	9,535
Adj. to reconcile net income to Cash Flows							-	-
Deferred tax benefit	3,256	3,876	1,743	(1,326)	-	-	46	-
Depreciation of property and equipment	10,812	13,190	15,955	19,176	24,291	24,888	4,567	6,047
Amortization of intangible assets	334	335	335	335	333	332	83	83
Asset sales (gains/losses)	(813)	(418)	(750)	(1,174)	(763)	(1,021)	(229)	(193)
Charges	-	-	-	-	-	-	-	-
Changes in working capital	-	-	-	-	-	-	-	-
Accounts receivable	5,522	(6,604)	(6,520)	(19,739)	(10,285)	1,304	(7,886)	1,158
Inventories	-	-	-	(4,003)	4,003	-	-	1,542
Costs and estimates earnings in excess of billings	2,030	(4,919)	1,441	(14,395)	(10,472)	-	(19,069)	(293)
Receivable for insurance claims in excess of deductibles	(1,610)	886	(340)	(1,700)	241	-	(786)	61
Other Current Assets	3,671	(1,898)	662	3,559	1,244	-	(1,674)	654
Accounts payable	(2,851)	13,781	(1,718)	35,062	3,910	(525)	22,273	5,544
Billings in excess of costs	(3,182)	(7,035)	19,842	(20,560)	3,918	-	(872)	113
Accrued self insurance	2,472	219	944	4,806	(512)	-	913	135
Other Current Liabilities	(5,498)	(5,498)	(4,369)	11,147	(2,023)	(1,046)	(983)	(2,912)
Other	85	85	85	(6)	68	-	17	34
Net Cash Flow from Operations	**38,779**	**23,911**	**44,837**	**30,394**	**49,079**	**59,879**	**448**	**22,155**
Cash Flow from Investing Activities								
Capital Expenditures	(27,955)	(29,680)	(21,895)	(42,342)	(35,429)	(25,000)	(10,601)	(12,099)
Proceeds from sale of property and equipment	1,896	748	1,278	1,306	364	-	229	224
Net Cash Flow from Investing	**(26,059)**	**(28,932)**	**(20,617)**	**(41,036)**	**(35,065)**	**(25,000)**	**(10,372)**	**(11,875)**
Cash Flow from Financing Activities								
Issuance of Common Stock	(2,895)	(33)	869	3,042	218	-	575	272
Purchase of Common Stock	2	598	-	(80)	-	-	-	-
Payments of capital lease obligations	-	(44)	(42)	-	-	-	-	-
Net Borrowings from (payments to) Banks	(2,298)	-	-	(20,930)	(13)	-	45	9,998
Net Cash Flow from Financing Activities	**(5,191)**	**521**	**827**	**(17,968)**	**(17,558)**	**(17,583)**	**620**	**10,270**
							-	-
Effects of Foreign Exchange	-	-	-	-	-	-	-	-
Net Increase (decrease) in Cash	7,529	(4,500)	25,047	(28,610)	14,219	34,879	(9,304)	20,550
Cash & Equivalents, Beg. Of Year	**34,547**	**42,076**	**37,576**	**62,623**	**34,013**	**48,232**	**44,713**	**3,750**
Cash & Equivalents, End Of Year	**42,076**	**37,576**	**62,623**	**34,013**	**48,232**	**83,111**	**35,409**	**24,300**
Free Cash Flow (before dividends)	**10,824**	**(5,769)**	**22,942**	**(11,948)**	**13,650**	**34,879**	**(10,153)**	**10,056**
% of Sales	1.8%	-0.9%	3.8%	-1.5%	1.4%	3.3%	-5.5%	3.9%
% of Net Income	45.8%	-33.5%	142.3%	-65.1%	42.1%	105.0%	-273.2%	105.5%

Source: Company reports and Baird analysis

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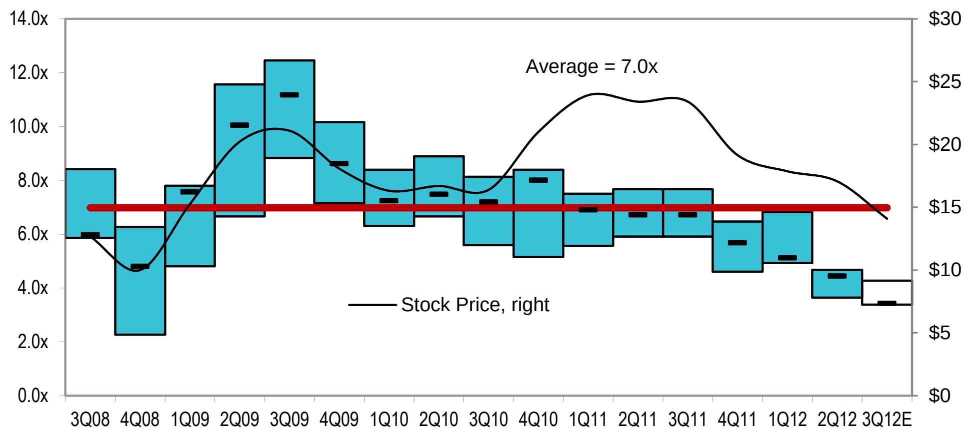
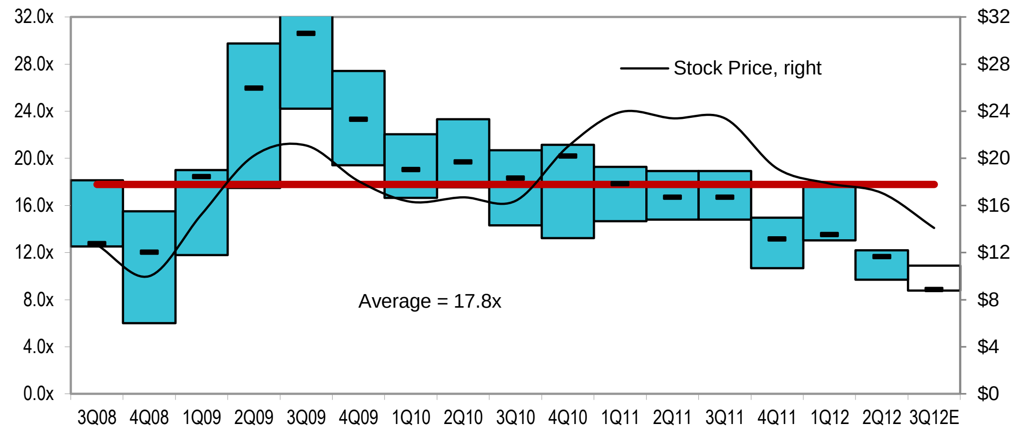
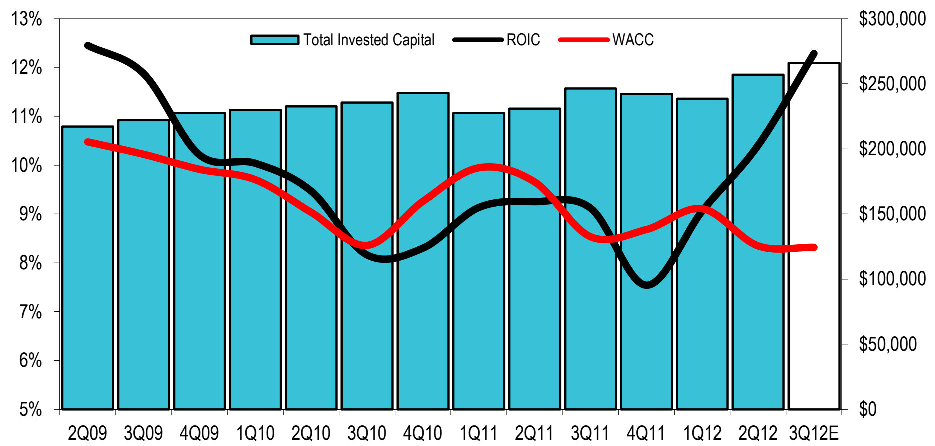
MYRG Forward EV/EBITDA



MYRG Forward P/E



MYRG ROIC vs. WACC



Source: Company reports and Baird analysis
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Covered Companies Mentioned

All stock prices below are the August 16, 2012 closing price.

AECOM Technology Corporation (ACM - $19.46 - Outperform)
Fluor Corporation (FLR - $54.53 - Outperform)
Jacobs Engineering Group Inc. (JEC - $40.88 - Outperform)
Mistras Group, Inc. (MG - $21.63 - Outperform)
MYR Group Inc. (MYRG - $20.41 - Neutral)
Quanta Services Inc. (PWR - $25.08 - Neutral)
Shaw Group Inc. (SHAW - $41.81 - Neutral)
Tetra Tech, Inc. (TTEK - $26.85 - Outperform)
URS Corporation (URS - $38.79 - Outperform)
(See recent research reports for more information)

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