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<b>New Recommendation: MasTec (MTZ: \$8.40)</b>	<b>May 15, 2005</b>
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**Position: Buy                      Target: \$12.00                      Timing: 2 (1=aggressive; 5=cautious)**

\$ooo	Q1 05A	Q2 05E	Q3 05E	Q4 05E	2005E	2006E	2007E
<b>Revs</b>	<b>217,770</b>	<b>236,000</b>	<b>259,000</b>	<b>267,200</b>	<b>979,970</b>	<b>1,144,000</b>	<b>1,275,000</b>
<b>EPS\$</b>	<b>(0.24)</b>	<b>0.03</b>	<b>0.13</b>	<b>0.15</b>	<b>0.08</b>	<b>1.17</b>	<b>1.83</b>
<b>Y/Y</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>1459%</b>	<b>56%</b>
<b>PE</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>111.5</b>	<b>7.1</b>	<b>4.6</b>
<b>PSR</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
<b>Cons.</b>	<b>(0.11)</b>	<b>0.04</b>	<b>0.14</b>	<b>0.14</b>	<b>0.23</b>	<b>0.95</b>	<b>n/a</b>

**Shares Out: 48.4M**

**Market Cap: \$406M**

**FYE: Dec**

Summary: MasTec (MTZ) is a turnaround story with a growth opportunity in the deployment of fiber to the home/node by the top three domestic telephone companies which control nearly 70% of all U.S. access lines. As competition

between cable, satellite and telecom providers intensifies, MTZ is positioned to participate in the anticipated growth in labor related spending by all three constituencies.

The market for outsourced infrastructure work for fiber deployment is estimated to be \$10B through 2010 based on the announced deployment plans of Verizon, BellSouth and SBC. MTZ, which had revenue of \$914M last year, is one of the only national service companies with the resources to handle large scale rollouts. Thus, we expect it to win a substantial part of these projects and recent evidence suggests it is doing just that. Longer term, if some of the more moderate fiber to the node (FTTN) initiatives evolve into fiber to the home (FTTH) deployments, there could be another growth leg for MTZ and our total estimate for infrastructure spending could increase.

The biggest driver of future MTZ earnings should be margin expansion. While there is tangible evidence that MTZ is participating in several major growth initiatives, its gross margins have been stuck in the 10% range for several years and it has not been able to generate sustainable profits. However, MTZ achieved average margins of 22% in the period from 1996-2001 and its most comparable competitor, Dycom has a current gross margin of 21%. We think MTZ can increase its margins and we estimate gross margins of 11.8%, 15.5% and 16.8% for MTZ in 2005, 2006 and 2007 respectively.

Three factors should result in higher margins for MTZ: First, we estimate that its government division, which has been losing a substantial amount of money, is nearing a turnaround as management has been replaced, aggressive bidding on municipal contracts has been halted and the completion of several unprofitable contracts has been accelerated. As these contracts reach completion over the next 6-9 months, future margins should increase; a revenue mix shift should also drive future margins – we anticipate substantial revenue growth from Verizon and DirecTV both of which should generate relatively high margins for MTZ. We estimate gross margins of 17-18% for these two businesses. Lastly, we expect management to aggressively cut operating costs and we anticipate lower Sarbanes-Oxley and legal expenses in the future. We also expect diminishing ramp up costs as the VZ project progresses.

MTZ has been increasing its presence in home installation/maintenance work. It has an exclusive contract with DirecTV in 13 states and we expect that to expand into additional states over time. This business is piece rate work and locks in attractive margins according to MTZ and its main competitor. With very little incremental G&A expense, the model is scalable and presents MTZ with two additional growth opportunities: it could win DTV work currently being handled by the big consumer electronics chains which use local unregulated work crews

and provide poor service. A larger long term opportunity, however, is for MTZ to procure outsourced home install/repair work for the cable providers.

Approximately two thirds of MTZ revenue is derived from longer-term master service agreements with large telecom and utility customers for outsourced design, installation and maintenance of critical infrastructure. These provide MTZ with a non-cyclical stream of recurring revenue and profit. MTZ serves a high quality client base and is integrated into the planning process with many of its larger customers. That should give it a leg up on any new expansion initiatives from these customers.

Much of MTZ's turnaround work appears to have been completed as evidenced in the latest reported results. Management has been entirely overhauled in the past year and several high quality people have been appointed to the board. The company is compliant with Sarbanes-Oxley rules and has filed all of its SEC documents following a lengthy delay. The company also has completed an expensive multi-year installation of an Oracle based financial reporting system which provides management with a real-time control of operations. Lastly, MTZ has written off both its Brazilian operation and a network services business and is making progress in its unprofitable government business. MTZ is clearly focused on increasing margins and generating cash flow.

If MTZ can achieve anything close to its former 22% gross margins and gain even a moderate share of new fiber deployments, the earnings upside could be substantial. MTZ also has a large NOL (\$170M) and is not likely to pay taxes for at least the next two years. Applying our estimated gross margins of 16.8% in 2007 on a revenue base of \$1.27B, MTZ could earn \$1.83 per share or \$1.13 fully taxed and could generate substantial cash. If margins were to increase closer to historical levels, earnings would be much higher.

We recommend that investors purchase MTZ shares with a medium to long-term horizon as a way to participate in the company's organic turnaround but more importantly to gain exposure to broadband spending and the potential rewiring of the nation's last-mile telephone infrastructure. While the value and prices of technology erode over time, the cost of labor continues to increase and this insulates MTZ from significant pricing risk. We think the risk reward proposition is favorable. Our initial 12 month target is \$12.00 based on a multiple of 16.7x our estimated 2006 fully taxed EPS of \$0.73, 7.6x 2006 ebitda and 0.6X revenue. This represents nearly 50% upside from today's valuation. Longer term, however, if additional growth opportunities play out, we think MTZ earnings power could be very large and that the shares could trade much higher.

Background:

MTZ builds and maintains network infrastructure for telecom, cable and power suppliers and provides intelligent traffic control systems for municipalities in several states. The company has been serving its major clients such as Bellsouth, Progress Energy and Florida Power & Light for many years. The market for network infrastructure services is highly fragmented with more than 3,000 firms the majority of which are local and have fewer than 50 employees. MTZ on the other hand, is one of only a few integrated contractors that is national in scope and can offer multiple services across many segments of the network.

Following the Telecom Act of 1996, spending on communications infrastructure surged due to the emergence of scores of new telecom firms and advances in technology. As these companies built new networks and the incumbent carriers responded to competitive threats, demand for construction services rose and MTZ rode the momentum. At the same time, the major cable TV operators began a large scale upgrade of their networks and MTZ participated there as well. As its revenue grew dramatically, MTZ acquired a number of small competitors and built its corporate infrastructure to match. When the inevitable downturn hit, triggering a cyclical decline in capital spending, MTZ was caught with bloated costs (including 10,000 employees and too much equipment), lax financial controls, and many customers whose credit quality and financing options had suddenly collapsed – most notably the CLECs. In fact, MTZ revenue declined from \$1.2B in 2001 to \$838M in 2002, a decline of 24%, and EBITDA declined from \$136M to a loss of \$24M in the same period.

Although revenue rebounded somewhat in 2003 to \$870M, MTZ reported another loss and to make matters worse, the 2003 audit identified certain conditions that constituted a material weakness in the internal controls over the company's financial reporting process. That forced MTZ to record several adjustments for the 2003 fiscal year and to delay the filing of its 10Qs for the first three quarters of 2004. Throughout this tumultuous period, MTZ's core business serving tier 1 customers performed relatively well with most of the revenue decline occurring from CLEC customers and in the government division. It is those tier 1 clients that MTZ will focus on in the future. MTZ personnel have also been entirely overhauled (and upgraded) in the past year including a new: CFO, CIO, controller, internal audit group, general counsel, group presidents and several new board members. MTZ also filed its 2004 10K ahead of its deadline and is now compliant with Sarbanes-Oxley 404 requirements. Management believes that completing these requirements has enhanced its financial controls and visibility into day to day operations across all of its reporting units. MTZ revenue increased 5% in 2004 to \$913M despite the write off of two operations and cash flow was positive.

## Discussion:

1. MTZ's size and footprint gives it a competitive advantage, as smaller firms cannot bid on the major upgrade work for national providers due to their lack of resources, financing and bonding capacity. Moreover, MTZ's reputation, specialized skill sets, and experience set it apart. This is important considering the critical infrastructure needs that MTZ services. It serves a base of large customers primarily through long term management service agreements (MSA). These deals are typically structured for 3-5 years with renewal options and escalation clauses. Moreover, they typically call for the MTZ to provide repair, maintenance and operating functions for a specified portion of the network. In fact, in 2004, \$637M or nearly 70% of MTZ revenue came from MSA and similar type agreements which provide a predictable stream of recurring revenue and margin. MTZ possesses skill sets not maintained internally by the client and has become integrated into the planning process with many of these clients. It has experienced a very high renewal rate within that base. MTZ's focus on this core quality customer base with MSA type contracts should bode well for future earnings and visibility.

2. The largest opportunity for MTZ over the next 3-5 years is its prospect of participating in the planned deployment of fiber to the home (FTTH) by Verizon Communications (VZ). In October 2004, the FCC voted to relieve the incumbent local telephone companies of its obligations (under the 1996 Telecom Act) to lease advanced fiber-to-the-home/curb network facilities to competitors. The FCC's decision is consistent with its 2003 Triennial Review and its goal of spurring investment in advanced broadband networks. This decision has led to acceleration in plans for the deployment of fiber networks by the three major RBOCs. While there is some skepticism as to the economic viability of the FTTH strategy, VZ is responding to the cable operators' triple play threat where they are bundling voice, video and data into attractively priced packages and stealing valuable fixed-line customers from the RBOCs. The equipment costs of providing FTTH have also dropped significantly over the past 5 years and the learning curve has increased.

SBC and BellSouth (BLS) have also announced plans for a somewhat scaled back fiber strategy where they intend to build fiber to the node and then rely on variations of enhanced DSL for the last mile to the customer premise. While that strategy is faster and less costly to deploy, over time it may not provide enough bandwidth to successfully offer multiple broadband services at the same level as a cable or pure fiber model. Therefore, these two companies may decide to extend their deployments to the customer premise. In fact, all of the RBOCs are contemplating and/or deploying some type of FTTP for new home construction. It is also important to note that our thesis is based solely on the Verizon business that we think MTZ can garner, though we expect MTZ to win fiber deployment work

from long-time customers BellSouth and Sprint and perhaps even some from SBC which has traditionally used small local contractors. Furthermore, many rural telecoms could tap into available government funds to initiate a FTTH strategy.

Due to the fragmented nature of the infrastructure services business, we expect the large national contractors like Dycom and MTZ to receive a lion's share of the labor spending. In fact, MTZ has deep relationships with the RBOCs and has experience with FTTH/FTTN environments with these companies. It also has substantial bonding capacity which enables it to service such potentially enormous projects. MTZ has already been approved by VZ to work in Florida, Texas, California, Virginia, Delaware and Pennsylvania. We expect it to announce additional states very soon. Dycom currently has work assignments with VZ in nine states with Virginia and Florida being its largest to date. Dycom is one of only three approved contractors for VZ in Virginia and according to the company is the only one doing any substantial amount of work so far in VA. MTZ expects to begin work in VA in July. In the most recent quarter, Dycom had \$55M in revenue from VZ which on a seasonally adjusted basis represents an annualized rate of about \$275M. This is nearly half of our estimated VZ outsourced construction spending for 2005. Dycom management stated that if VZ were to meet its stated goal of passing 2M homes this year, its current rate of work would actually have to increase. On a recent conference call, an executive of Quanta Services (which is also doing some VZ fiber construction) said he considered the FTTH backlog number as conservative because "the build out is so massive that it can overwhelm the municipality's ability to issue permits."

As detailed in Table 1, we estimate that MTZ will get just over 20% of the outsourced construction spending from VZ. This is based on current run rates of both MTZ and DY, our discussions with management and industry personnel, and VZ's plans to use 2-3 national contractors in each market. Although MTZ does not break out margins for individual projects, our discussions with industry representatives, competitors and MTZ management lead us to expect that margins from the VZ deployment will be favorable once it is out of the initial ramp up mode. Historically, MTZ's large construction type projects have yielded the highest margins among its various businesses. Furthermore, the VZ initiative is very labor intensive – far more so than the SBC and BLS FTTN plans. The increased demand for large scale outside construction work resulting from the multiple fiber deployment projects should also result in upward pricing pressure for such services and this was made apparent from Dycom's renegotiated pricing with VZ earlier this year. We estimate MTZ's margins from the VZ FTTH deployment to be 17% and 18% in 2006 and 2007 respectively.

VZ has unveiled its plan to pass nearly 15M homes with fiber over the next 6 years including 1M already passed and another 2M homes scheduled for 2005.

Overbuilds, which are far more labor intensive, should represent 85-90% of the plan. VZ has further stated that it plans to connect all homes in each market after 12-18 months of success-based marketing. As evidence of its intentions, VZ has dedicated 7,500 personnel to this initiative and has construction underway in 14 states. It has also made significant progress acquiring content for its video strategy, including deals with NBC, Showtime, Discovery and Starz. VZ management said it is encouraged by early take rates across the 250 or so communities currently eligible for its Fios internet service although it has declined to offer any specific figures. It is offering Fios in three packages: 5Mbps/2Mbps for \$34.95/mo as part of a calling package; 15Mbps/2Mbps for \$44.95; and 30Mbps/5Mbps for \$199/mo. According to the company, its network could offer speeds up to 100Mbps. VZ plans to add video toward the end of 2005.

In assessing potential take rates, we note that SureWest Communications, a local telecom in northern California has passed 75,000 homes with fiber (in greenfield settings only) and has a 22% penetration rate for its symmetrical 10Mbps offering after just over two years. SureWest claims that in recent fiber rollouts when its sales force was given the chance to provide an in-house demonstration, it achieved a 70% success rate. In a recent report from consultant Render Vanderslice & Associates, take rates were estimated to be anywhere from 20% to 95% among the 400 communities that now have FTTH connections in the U.S. In addition, the Fiber to the Home Council estimates that average take rates are 40% and as high as 75% in some communities. While we do not expect VZ to experience take rates as high as these, it demonstrates that there is demand for reliable, ultra-high speed broadband access. It is also estimated that only 56% of U.S. homes have an internet connection while just 15% have an advanced broadband connection.

In Table 1 below, we detail our forecasts for the VZ rollout and MTZ's participation. We assume only homes passed with buried lines (versus aerial lines) will be addressed by outside contractors such as MTZ and that VZ technicians will address the aerial lines. We estimate the buried portion comprises roughly 40% of VZ homes. Next, we estimate both the labor cost of passing a home and connecting a home. These are derived from industry reports, Corning, various FTTH deployments and company estimates. We have used conservative estimates particularly for the cost of connecting a home. Next we estimate that MTZ will receive just over 20% of the total outsourced work for the 40% of homes passed with buried lines and we derive this based on MTZ's revenue from VZ in Q3 04, Q4 04 and Q1 05, Dycom revenue trends, and discussions with representatives from MTZ, Dycom, VZ and other observers. Lastly we have forecasted what we believe to be a conservative residential take rate for the Fios service of 10% in 2005 and gradually increasing to 16% by 2007.

Our estimates have VZ connecting 3.2M or just over half of its total homes (having buried infrastructure) passed with fiber by the end of 2009 despite the company's stated intention to connect most of these homes by that time (regardless of early take rates). This equates to 22% of all VZ homes being connected with fiber at the end of 2009. In our model, we estimate that in addition to the homes taking the Fios service, VZ will selectively connect just 20% of homes passed following an 18 month marketing period.

Table 1: VZ FTTP rollout

	2004	2005	2006	2007	2008	2009
Total homes (MM)	34.5	34.8	35.2	35.5	35.9	36.3
% change		1.0%	1.0%	1.0%	1.0%	1.0%
2004 FTTP upgrades	1.0	1.0	1.0	1.0	1.0	1.0
2005 FTTP upgrades		2.0	2.0	2.0	2.0	2.0
2006 FTTP upgrades			3.0	3.0	3.0	3.0
2007 FTTP upgrades				4.0	4.0	4.0
2008 FTTP upgrades					3.0	3.0
2009 FTTP upgrades						1.0
Total VZ homes passed with fiber	1.0	3.0	6.0	10.0	13.0	14.0
% of total	2.9%	8.6%	17.0%	28.1%	36.2%	38.6%
Est. VZ homes passed w/ buried lines(MM)	0.4	0.8	1.2	1.6	1.2	0.4
cumulative buried homes passed		1.2	2.4	4.0	5.2	5.6
Est. labor cost/ home passed(buried)	600	609	618	627	637	646
Total labor cost/ home passed (buried)	240	487	742	1,004	764	259
% of revenue to MTZ	13%	20%	23%	23%	23%	23%
MasTec estimated VZ revenue from homes passed (MM) <b>A.</b>	31	97	171	231	176	59
estimated take rate- yr 1	5%	10%	14%	16%	17%	17%
VZ homes connected - success based yr 1	0.0	0.1	0.2	0.3	0.2	0.1
VZ homes conn. - voluntary+ incr success	0.0	0.2	0.4	0.6	0.7	0.6
cumulative homes connected(buried)	0.0	0.3	0.9	1.7	2.6	3.2
% of buried homes passed	5.0%	26.7%	36.3%	42.5%	49.3%	57.6%
% of total VZ homes (buried)	0.1%	2.3%	6.2%	12.0%	17.9%	22.2%
Labor cost per line drop (\$)	325	332	338	345	352	359
Total labor cost of line drops (MM)	7	99	186	286	304	237

% of revenue to MTZ	0%	10%	20%	21%	22%	22%
MTZ est. revenue from connections (MM) (B)	0	10	38	60	67	52
Total est. construction revs spent by VZ	247	587	928	1,290	1,068	496
Total combined MTZ rev from VZ (MM) (A+B)	31	107	209	291	243	112
MTZ rev as % of VZ total	13%	18%	23%	23%	23%	23%

The result of our analysis is that MTZ could generate \$200-\$300M in each year from 2006-2009 from the VZ project and that alone could make MTZ shares attractive at the current valuation. It is also important to note that from an investment standpoint, we are primarily concerned with earnings in the latter half of 2005, 2006 and to an extent 2007. We are not banking on what happens after that. Therefore, we rely only on VZ's planned deployment over the next two years.

Although there have been significant ramp up costs to getting the VZ work underway, the benefit to MTZ should begin to appear by Q3 2005 at the latest and then accelerate thereafter. As MTZ begins work in additional markets and its revenue from VZ continues to increase, we expect labor and subcontractor costs to decline sequentially as a percent of revenue as training and mobilization activity winds down. While first full-year earnings impact shouldn't occur until 2006, annualized results from the second half of 2005 could be strong enough to reignite investor interest in MTZ.

3. While we are modeling in a minimal amount of incremental revenue from BLS in 2006-2007 and no fiber related revenue from SBC or Sprint, MTZ could get a meaningful amount of their combined fiber rollout spending. For example, SBC has accelerated its fiber deployment to 18M target customers from a 5-year timeframe to a 3-year timeframe and expects to spend \$4B in total. BLS announced a \$2B initiative to deploy ADSL2+ to nearly 70% of its network. Furthermore, if either or both of these companies decides to extend their FTTN projects into FTTP projects, it could result in another wave of capital spending of which MTZ could get a share. At the very least, one could expect upward pressure on contact labor rates from all this activity. Lastly, Dycom management believes that the labor opportunity from connecting homes with fiber could be even greater than the initial opportunity of passing them although it would probably not be for another three years or so.

4. MTZ has a rapidly growing business with DirecTV (DTV) for which it installs and maintains satellite service. MTZ is part of an approved home service provider (HSP) network and has an exclusive contract with DTV in 13 states for new

customers in the direct channel (not at retail stores). It performs initial installs as well as move and maintenance work in those states. DTV estimates that 60% of its customers are serviced by its HSP network while the other 40% is still serviced by unregulated local firms who provide poor service. DTV has stated that it will continue to increase the percentage of customers served under its approved network (to perhaps 80% by the end of 2006) where customer service ratings are far higher. DTV should be the largest customer for MTZ in 2005 with revenue of \$280M. According to statements by management, and based on our discussions with another major DTV installer, margins are attractive on this business and DTV pays very quickly – less than 40 days in our estimate. MTZ also cites the DTV business as its second highest margin business. We have modeled in a gross margin of 17%-18% for the DTV business.

We were initially skeptical upon seeing that MTZ was growing its home install/maintenance business. However, on closer inspection, this appears to be a good business. First, the work is provided on a piece rate basis and is efficiently concentrated in urban areas. Both MTZ and its installers receive a fixed fee per job with MTZ locking in a reasonable margin. The employee is satisfied and can work as hard as he or she wants to whereas MTZ does not have to worry about keeping tabs on a disparate workforce being paid by the hour. MTZ also uses its buying clout to lease its fleet of vans. This is much less expensive than reimbursing workers who use their own vehicles. There is also an opportunity for the installer to up sell higher value service for which MTZ and the installer split a commission. Over the past 9 months, MTZ has transitioned the DTV workforce to an in-house model with more than 70% of the workers now being MTZ employees as opposed to more expensive subcontractors. We estimate the ratio will reach 85% over the next year. While this transition results in higher initial recruiting and training expense, its more efficient and it enables MTZ to deliver better customer service, which is the critical factor for DTV.

Our best estimate is that the average basic installation of 1 dish and 1 room generates about \$140 in revenue to MTZ. However, we estimate the average DTV installation now covers 2-3 rooms and could generate \$215-\$250 with a single truck roll. According to management, only a third of its DTV revenue is from installation work, with the other two thirds being upgrades and after-install maintenance and repair work. As the overall base of DTV subscribers expands – driving the percentage of non-install revenue upward – it should create an annuity of business for MTZ. There are also two potential growth drivers for MTZ with this model. First, the DTV business could expand into additional states and into the retail channel as well. In fact, at the behest of DTV, Best Buy has begun shifting its satellite install work to exclusive DTV outsourcing entities on the HSP network. Circuit City still uses out of network installers but could roll onto the HSP network very soon. We have not modeled any of this into our forecasts but we will revisit it

upon gathering further information. An even larger opportunity would be for MTZ to win a similar deal with one of the major cable providers.

DTV recently reported results for its March quarter. Gross subscriber additions were 1.14M and monthly churn was 1.49% resulting in net additions of 505,000 subs. At March 31, DTV had 14.5M subscribers compared to 12.6M a year earlier. MTZ's installation business benefits from the large number of new subs while the move/maintenance/repair work benefits from the high number of cancellations (churn) as well as the continuous flow of moves and fixes. In 2003 and 2004, DTV had gross additions of 3M and 5.4M subscribers respectively while churned subscribers numbered 1.8M and 2.2M. Total subscribers are estimated to be 18M by 2008.

5. About 19% of MTZ revenue is from the energy business from customers such as Florida Power & Light, Southern Company and Progress Energy. MTZ designs, builds and maintains electrical distribution and transmission infrastructure, substations and small diameter pipelines. There may be an opportunity in electrical grid upgrades in the U.S. The existing infrastructure is aging while power demand continues to expand. Moreover, utilities are flush with cash although it appears they will spend more on environmental and cost-cutting initiatives in the near term. While the potential cap ex from an overhaul of the power grid would be substantial, there is too much uncertainty regarding timing and regulatory frameworks for us to model in any material growth in this segment. Revenue in this segment was stronger than we expected in Q1 05 and management commented that margins had increased as well. Quanta Services also recently noted that customers were starting to initiate projects that had been previously shelved.

6. MTZ builds and maintains what it refers to as intelligent traffic systems for municipalities in a number of states. These are basically small fiber optic networks connecting road sensors, programmable signals, video monitors, and automated toll collection systems. The company expects to benefit from increased spending on homeland security as well as from the upgrading of the highway infrastructure. However, we have modeled in very little growth for this segment since it would depend on increased government funding into which we have little insight. Furthermore, this has been MTZ's worst performing business in recent years and we estimate that it has been losing substantial money for the past two years. Although division management has been completely replaced and financial controls improved, we are forecasting minimal growth for the foreseeable future and only a very gradual return to profitability – we have modeled in very low margins for this business in 2006 and 2007. The government division accounted for 16% of MTZ revenue in 2004.

7. MTZ also constructs upgrades and maintains network infrastructure for the cable television industry. In recent years, most of this business derived from major upgrade work for Comcast's acquired AT&T properties. However, with that project nearly complete, we expect Comcast to contribute just \$20M in revenue to MTZ on an annual basis (compared with \$109M in 2004 and \$117M in 2003). We also forecast some growth from Adelphia and Charter. The company combines the DTV business into this Broadband division and we expect DTV to be the main growth driver in the future unless MTZ is able to win a contract to provide outsourced install/maintenance work for a major cable company.

8. From today's vantage point, the investment case for MTZ is relatively straightforward: It's about revenue and margin. The current backlog of \$1B, which is comprised mostly of MSA type contracts and thus provides solid visibility, also gives us comfort. While revenues should increase over the next several years based on the VZ fiber build and to a lesser extent DTV, the biggest earnings driver for MTZ is an increase in its margins. There are three major drivers of margin expansion in the coming years. First, MTZ should benefit from a mix shift toward higher margin business, particularly with Verizon and DirecTV. In fact, in 2006 and 2007, we estimate that these two companies combined could account for 40%-50% of MTZ revenue. With forecasted gross margins in the 17%-18% range, the shift in revenue mix should have a beneficial impact on MTZ margins. Recall that over the past two years, gross margins have been depressed in the 10% range.

MTZ should also benefit from the completion over the next 9 months of various unprofitable contracts in the government division. The company made a major push in Q1 to accelerate the completion of some of the larger projects and that resulted in unusually high materials costs and overtime that depressed margins in the quarter. It was this division, in our view, that was at the root of many of MTZ's problems in the past two years and we estimate it has been losing a significant amount of money. In fact, applying various sensitivity analyses among MTZ divisions, we estimate that gross margins excluding the government division would have been in the 13%-14% range as opposed to the reported margins in the 9%-11% range for the past two years. Apparently, MTZ was bidding in 35 states and winning the majority of all its bids. Clearly there were few financial controls in this division and the company wound up engaged in many unprofitable contracts. Fortunately, these were not very long-term contracts and the entire division management has been replaced. All bids must now be approved by the CEO.

The final driver to margins should come from cost cutting, better utilization and coordination of assets and operating leverage, although this will have a smaller impact than the gross margin improvements. The new CFO appears to have taken a conservative approach and has cleaned house during the past few quarters including shoring up insurance reserves, booking losses on projects and complying

with SOX 404 laws. Moreover, the ramp up of expenses for VZ and close down costs deriving from the completion of the Comcast upgrade has had a dampening effect on margins as has the transition of the DTV business to an in-house model. Thus, MTZ's margins may be even more artificially depressed than investors realize. With little G&A needed to increase revenue from current levels, MTZ should be able to leverage its sales growth into expansion in Ebitda margins. During the peak of the last major cycle in 2000, MTZ achieved a gross margin of 23.5%, Ebitda margin of 15% and EPS of \$1.35 fully taxed. Moreover, in the six years from 1996-2001, MTZ averaged a gross margin of 23% and an Ebitda margin of 13%. Table 2 below highlights the margin progression at both MTZ and Dycom over the past 7-9 years. Although MTZ management claims that gross margins approaching former levels are achievable, our investment case for MTZ is based on the company reaching a gross margin of 16.8% over the next 2 years.

Table 2:

<b>MasTec</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Margin	25.0%	24.8%	23.3%	23.4%	23.5%	19.2%	11.1%	10.0%	9.3%
Ebitda Margin	13.0%	12.3%	12.6%	15.0%	15.0%	11.2%	-2.9%	7.5%	2.0%
<b>Dycom</b>	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Margin	NA	NA	23.3%	27.1%	25.5%	25.6%	23.2%	21.9%	22.8%
Ebitda Margin	NA	NA	13.6%	17.5%	17.4%	17.0%	10.0%	10.6%	14.2%

9. MTZ's balance sheet is perhaps the most concerning part of the turnaround case. Long-term debt is \$196M – these are 7.75% subordinated notes due in 2008 and pay interest semi-annually. This compares to \$23.3M in cash and \$180M in shareholders' equity. MTZ also has a \$150M revolver with \$0 drawn on it to date and \$63M letters of credit supporting its insurance program for workers comp, auto and general liability claims.

As a result of its loss in 2004, MTZ was not in compliance with certain covenants and required a waiver for its credit facility. An amendment modifying these covenants was filed on March 17, 2005 and MTZ is now in full compliance with its lenders. Our cash flow estimates for 2005 suggest that MTZ will easily remain in compliance and that the company should generate enough free cash to begin paying off its debt. Longer term, should the turnaround effort take hold, we would expect the share price to improve and for MTZ to eventually complete an equity offering. In fact, it withdrew a previously planned offering in 2004 due to the low share price. There are 9M options priced at an average of \$12.84 per share.

MTZ should be able to reduce its receivable DSO. The combination of aggressive collection efforts, better contract terms, and a mix shift to clients that pay more quickly, should enable MTZ to bring DSO to 70 days in 2005 compared

to a recent 79 days. We note that bonus incentives are now heavily tied to DSO performance and that each one day decline represents more than \$2M in incremental liquidity for MTZ. The goal is to get DSO down to 60 days in a few years although we have only modeled in a decline to 68 days by the end of 2007.

10. MTZ has completely upgraded its operations and finance personnel over the past several years. In October 2004, it hired C. Robert Campbell as its new CFO. His resume includes positions at TIMCO Aviation, BAX Global, and Ryder Systems where he held similar roles and was instrumental in restructuring and turnaround initiatives. According to Mr. Campbell, he performed extensive due diligence before accepting the position, and in the seven months he has been with MTZ, he claims to have encountered no surprises relating to the company's finances or operations. MTZ also continues to be led by CEO Austin Shanfelter who has been in the infrastructure industry since 1981 and has an in-depth knowledge of the company's various operations.

11. As with any turnaround story, there are a number of risks to an investment in MTZ. The biggest risk to our thesis is that VZ considerably scales back its fiber plans. However, judging by its recent actions, VZ appears to be committed to the FTTH strategy. In fact, we think a worst case scenario is that the take rates for Fios fall far short of VZ's expectations and that VZ scales back to a FTTN architecture similar to SBC and BLS. Even in that scenario, however, we think the benefits to MTZ in the next 2-3 years would be substantial if not equal to what we are expecting today. The other major risk to MTZ is the high level of customer concentration specifically with regards to VZ and DTV. While we have already addressed the VZ risk, it should be noted that any misstep with DTV could lead to a significant decline in future earnings. Furthermore, as with most investments, a severe downturn in the U.S. economy could have a material negative effect on MTZ's operations.

## 12. Recent Results:

MTZ's reported results in recent quarters have left a lot to be desired. As previously detailed, it has suffered from a telecom industry downturn and the widespread bankruptcies among upstart CLECs. Moreover, the company has lacked adequate financial controls which caused mismanagement in many of its divisions – including a bloated cost structure and aggressive bidding on construction projects, particularly in its government division. However, after losing significant money in 2002 and 2003, MTZ appears to have right sized the business and has been making incremental progress since the second quarter of 2004 when its revenue increased 15% and earnings were virtually break even. In Q3 04 investors got a glimmer into the turnaround potential at MTZ when revenue

increased 6% to \$250M, gross margin improved to 12.2%, and EPS was \$0.09, up 83% year to year.

In the most recent period, Q1 05, which is traditionally the weakest quarter, revenue increased 12% to 218M including a 55% increase in telecom revenue to \$71M. VZ revenue increased to \$27M from \$4M with all of the increase related to FTTH. In the past two quarters combined, VZ revenue was \$52M which on a seasonally adjusted basis annualizes to about \$125M – well ahead of the \$100M we have modeled in for 2005. This is evidence that VZ's deployment of FTTH is real and that MTZ is participating in a material fashion. Revenue from DTV was \$62M in Q1, up 82% from the prior year and that offset most of the anticipated decline in Comcast revenue. Revenue in the energy division increased 15% while the government division was flat and continued to lose money. MTZ had 8,200 employees at the end of Q1 with 15% of them being subcontracted.

Gross margins in Q1 were just 6% although that is up from 3% in the year ago quarter. Margins were impaired by recruiting and training costs as MTZ continued to transition the DTV business to an in-house model, and by a planned acceleration in the completion of unprofitable DOT contracts which triggered higher than normal costs for materials and labor. Lastly, as MTZ entered the final stage of the Comcast upgrade, it experienced a number of close down costs. It also had continued ramp up cost with VZ although those expenses are now mostly behind it. Thus, as VZ revenue continues to increase, there should be a disproportionate increase in profits. The company noted that margins in the energy business had improved from last year and that contract pricing across all businesses had stabilized and/or improved mostly as a result of smaller competitors exiting the market over the past four years.

In Q1 05, G&A expense improved to 7.6% of revenue from 10.5% in Q1 04 and 8.3% in Q4 04. MTZ appears to be making progress on reducing the legal, audit and SOX expenses that have burdened it for the past year and we expect a continued reduction in these expenses over the next two quarters – especially as MTZ reduces the use of expensive temporary employees for SOX and audit work. Despite a loss of \$11M, cash flow was again positive and MTZ ended the quarter with \$23M in cash (compared to \$3.3M a year ago) and \$196M in long-term debt. The company also announced an expanded \$150M credit facility with better rates and availability and greater covenant flexibility. DSO was 79 versus 91 in Q1 04 and management's 2005 bonus plan is now tied to improvement in DSO. Management's medium-term goal is 60 days which is well below our estimated targets of 71 and 69 in 2005 and 2006. Backlog stands at just over \$1B.

A new management team is in place. Information systems are in place. Management appears to have a real time control over its operations. Two

unprofitable businesses- Brazil and network services – have recently been closed down. And the company is actively addressing losses in the government business. It appears that most of the turmoil and cost issues are finally behind MTZ and that management is now clearly focused on improving margins and generating cash flow. The company guided to a small profit in Q2 which could signal the turning point for future profitability.

### 13. Financial Assumptions

While 2005 will be more or less a transition year for MTZ, the back half of the year should deliver the first tangible evidence of the growth potential in the MTZ model. In fact, we would not be surprised to see some elements of solid upside as early as the June quarter although we are not counting on it. For Q2, we expect MTZ to report a profit of \$0.03 resulting from a small increase in gross margin and leverage on G&A expense. We anticipate the last of the major ramp up expense for VZ and the tail end of the Sarbanes and audit costs to occur in Q2. For the full year 2005, we are estimating a 7.2% increase in revenue to \$980M driven mostly by growth in the telecom (\$100M from VZ) and broadband divisions (DTV growth should more than offset a decline in Comcast revenue).

Our 2005 gross margin estimate is 11.4% compared to 9%-10% margins in 2003 and 2004, although we forecast gross margin to surpass 13% in the second half of the year. The margin increase should result from a mix shift toward higher margin telecom and DTV revenue as well as diminishing losses in the government division in the latter half of the year. G&A expense should increase at a lower rate than sales as most of the infrastructure and processes have been put in place ahead of the VZ deployment. We also model flat interest expense and no material gains/losses on assets resulting in operating profit of \$20M or 2% of revenue. With 20M in depreciation & amortization, Ebitda for 2005 should be \$40M or 4% of revenue compared with 1% in 2004. Since MTZ has a large NOL that it can use for many years, we do not expect it to pay taxes for at least the next two years. Thus, using 48.7M diluted shares; we arrive at EPS of \$0.08 although we expect EPS to be annualizing at \$0.55 in the second half of the year.

For 2006, we forecast revenue to increase 16.7% to \$1.14B. Our forecast assumes DTV revenue increases 14.5% to \$320M (after an estimated 45% increase in 2005) and that Verizon revenue comes in at \$210M – more than double the prior year. We also model Comcast revenue at \$20M down 15% from 2005 and down 80% from 2004 when it completed a major rebuild. We assume no revenue from the SBC fiber deployment and just \$12M in incremental fiber revenue from long-time customer BellSouth although we think there could be substantial upside with BellSouth. Our 2006 revenue forecast breaks down as follows: Telecom \$430M

(+34%); Broadband \$380M (+17.9%); Energy \$182M (-2.5%); and Government \$152M (+1.5%).

Our 2006 gross margin estimate is 15.5%, again driven by a positive mix shift and a very small profit in the government division after several years of losses. We estimate the gross margin of the VZ and DTV businesses in the 17%-18% range as previously stated. Our G&A estimate is \$84M or 7.3% of revenue as we assume that MTZ can achieve moderate leverage on its relatively fixed cost base and a decline in SOX 404 and legal expenses. This results in operating profit and Ebitda of \$72M and \$93M respectively. Interest expense remains at \$19M while interest income increases \$1M as we assume some cash buildup derived from positive free cash flow. On 48.7M shares, EPS is \$1.17 for 2006 or \$0.73 on a fully taxed basis even though MTZ will not pay taxes.

In 2007, we estimate revenue increases 11.5% to \$1.27B driven primarily by Verizon (+33% to \$280M) with \$10M in incremental revenue from BellSouth and \$20M from DTV to \$340M. Again we assume \$0 fiber-related revenue from SBC, Sprint or any rural telecoms. Total telecom revenue increases 20% to \$520M while we model the other three divisions to increase by 4%-6%. Our 2007 gross margin increases to 16.8% driven by further mix shift (VZ, BLS, and DTV), a 10% gross margin in the government business on top of 5% revenue growth, and steady low-teen margins in the energy business. G&A expense goes to \$90M or 7.1% of revenue resulting in Ebitda of \$124M in 2007 and EPS of \$1.83, or \$1.13 on a fully taxed basis.

14. Valuation: MTZ shares have declined by nearly 60% from the recent high in early 2004 when investors marked up the stock on the early excitement about the potential for fiber build outs. However, continuous losses in the government division combined with wide scale management turnover and delayed financial statements have led to the erosion of any premium valuation. Many investors have grown impatient with the MTZ story and perhaps distrustful of management.

We view MTZ as a medium-risk, high-return investment. The higher risk stems from the company's debt relative to its equity and also the lack of any material underlying tangible assets. In our view, the value of MTZ resides solely in its long-term contracts, its ability to generate cash and the fact that MTZ and its predecessors have been in business for more than 60 years. We estimate that MTZ will generate substantial cash over the next 3-5 years. However, its performance in recent years has been dismal and thus most of the investment case is based on business that has yet to occur. Should the company apply its future cash flows to paying off the debt, MTZ could evolve into more of a pure value investment. Lastly, there have been rumors that a competitor made a bid for MTZ that was

rejected. Our investment case does not rely on any takeover potential although with the Mas family controlling 40% of the shares we would not dismiss this possibility.

We have applied a combination of valuation metrics to arrive at our initial price target of \$12.00. Based on our 2006 estimates, this translates into the following multiples: 0.65x revenue; 7.6x ebitda; 10x EPS; and 16.5x EPS fully taxed. We think these are reasonable multiples for a company that should be viewed more as a growth cyclical and also considering that there are several potential “growth kickers” that we have excluded from our analysis. Nonetheless, we recognize the risk in the MTZ story as management has failed to deliver earnings for several years. Investors with a 12-18 month horizon and a desire to participate in the coming build out of fiber to the home/node should purchase MTZ shares at today’s depressed valuation.

## 15. Financial Models \$000

annual projections (000)	2003	2004	2005e	2006e	2007e
Telecom	231,263	251,083	321,240	430,000	520,000
Broadband	265,383	342,553	322,249	380,000	405,000
Energy	198,583	175,314	186,736	182,000	190,000
Government	132,251	144,845	149,745	152,000	160,000
Total Revenue	827,480	913,795	979,970	1,144,000	1,275,000
Cost of revenue	744,587	828,743	867,797	966,680	1,060,800
Gross Profit	82,893	85,052	112,173	177,320	214,200
Depreciation & amort	27,586	17,099	19,965	21,000	22,000
G&A expense	70,112	74,550	72,360	84,000	90,000
Operating profit	(14,805)	(6,597)	19,848	72,320	102,200
Interest expense, net	19,180	19,478	19,351	18,000	16,000
Other expense (inc)	(1,242)	(191)	(3,373)	(3,100)	(3,000)
Pretax income	(32,743)	(25,884)	3,870	57,420	89,200
Income tax provision	(8,300)	0	0	0	0
Minority interest	0	333	200	200	200
Net income	(24,443)	(26,217)	3,670	57,220	89,000
EPS	(0.51)	(0.54)	0.08	1.17	1.83
Avg shares	48,084	48,382	48,700	48,700	48,700
EPS - fully taxed	(0.32)	(0.34)	0.05	0.73	1.13

% of revenue	2003	2004	2005e	2006e	2007e
Gross profit	10.0%	9.3%	11.4%	15.5%	16.8%
Depreciation & amort	3.3%	1.9%	2.0%	1.8%	1.7%
G&A expense	8.5%	8.2%	7.4%	7.3%	7.1%
Operating profit	-1.8%	-0.7%	2.0%	6.3%	8.0%
EBITDA	1.5%	1.1%	4.1%	8.2%	9.7%
Interest expense, net	2.3%	2.1%	2.0%	1.6%	1.3%
Other expense (inc)	-0.2%	0.0%	-0.3%	-0.3%	-0.2%
Pretax income	-4.0%	-2.8%	0.4%	5.0%	7.0%
Income tax provision	25.3%	0.0%	0.0%	0.0%	0.0%
Minority interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	-3.0%	-2.9%	0.4%	5.0%	7.0%

yr to yr % change	2003	2004	2005e	2006e	2007e
Telecom	-29.9%	8.6%	27.9%	33.9%	20.9%
Broadband	74.5%	29.1%	-5.9%	17.9%	6.6%
Energy	22.0%	-11.7%	6.5%	-2.5%	4.4%
Government	8.7%	9.5%	3.4%	1.5%	5.3%
Total Revenue	8.0%	10.4%	7.2%	16.7%	11.5%
Gross Profit	0.3%	2.6%	31.9%	58.1%	20.8%
SG&A expense	-34.7%	6.3%	-2.9%	16.1%	7.1%
Operating profit	-74.7%	na	na	264.4%	41.3%
Interest expense, net	4.8%	1.6%	-0.7%	-7.0%	-11.1%
Pretax income	-62.3%	-20.9%	na	1383.6%	55.3%
Net income	-52.9%	7.3%	na	1459.0%	55.5%
EPS	na	6.6%	na	1459.0%	55.5%
Avg shares	0.3%	0.6%	0.7%	0.0%	0.0%
EPS - fully taxed	na	6.6%	na	1459.0%	55.5%

Cash flow	2003	2004	2005	2006e	2007e
Net income	(24,443)	(24,000)	3,670	57,220	89,000
Depreciation & amt	28,220	18,000	19,965	21,000	22,000
change in A/R	(31,600)	(200)	(4,257)	(17,000)	(21,000)
change in Inventory	(12,000)	(13,000)	(5,000)	(8,000)	(8,000)
change in A/P	34,400	13,763	4,000	0	0
Other WC	(11,020)	5,900	0	0	0
Prov for DA	4,278	5,086	5,000	5,000	5,000
Operating cash flow	(12,165)	5,549	23,378	58,220	87,000
Cap exp	(10,960)	(9,300)	(14,000)	(17,000)	(21,000)
Free cash flow	(23,125)	(3,751)	9,378	41,220	66,000
FCF / share	(0.48)	(0.08)	0.19	0.85	1.36
Asset sales	22,000	8,000	4,000	2,000	0

	2003	2004	2005	2006e	2007e
Cash	19,415	19,548	32,926	76,146	142,146
Debt	201,000	196,000	196,000	196,000	196,000
Net debt	181,585	176,452	163,074	119,854	53,854
Ebitda	12,781	10,502	39,813	93,320	124,200
Net debt / Ebitda	14.2	16.8	4.1	1.3	0.4
Book value/ shr	4.50	3.98	4.00	5.18	7.00
DSO	90.6	79.1	75.3	69.9	68.6

quarterly projections  
(000)

	Q4 04A	Q1 05A	Q2 05E	Q3 05E	Q4 05E
Telecom	67,950	71,240	75,000	85,000	90,000
Broadband	81,788	69,249	78,000	85,000	90,000
Energy	44,675	44,536	46,000	49,000	47,200
Government	58,500	32,745	37,000	40,000	40,000

Total Revenue	252,913	217,770	236,000	259,000	267,200
Cost of revenue	221,600	204,970	207,680	224,553	230,594
Gross Profit	31,313	12,800	28,320	34,447	36,606
Depreciation & amort	3,800	4,965	5,000	5,000	5,000
G&A expense	21,100	16,460	17,400	18,500	20,000
Operating profit	6,413	(8,625)	5,920	10,947	11,606
Interest expense, net	5,201	4,851	4,900	4,800	4,800
Other expense (inc)	800	(1,973)	(400)	(500)	(500)
Pretax income	412	(11,503)	1,420	6,647	7,306
Income tax provision	0	0	0	0	0
Minority interest	326	66	100	100	100
Net income	86	(11,569)	1,320	6,547	7,206
EPS	0.00	(0.24)	0.03	0.13	0.15
Avg shares	48,700	48,696	48,700	48,700	48,700
EPS - fully taxed	0.00	(0.15)	0.02	0.08	0.09

% of revenue	Q4 04A	Q1 05A	Q2 05E	Q3 05E	Q4 05E
Gross profit	12.4%	5.9%	12.0%	13.3%	13.7%
Depreciation & amort	1.5%	2.3%	2.1%	1.9%	1.9%
G&A expense	8.3%	7.6%	7.4%	7.1%	7.5%
Operating profit	2.5%	-4.0%	2.5%	4.2%	4.3%
EBITDA	4.0%	-1.7%	4.6%	6.2%	6.2%
Interest expense, net	2.1%	2.2%	2.1%	1.9%	1.8%
Other expense (inc)	0.3%	-0.9%	-0.2%	-0.2%	-0.2%
Pretax income	0.2%	-5.3%	0.6%	2.6%	2.7%
Income tax provision	0.0%	0.0%	0.0%	0.0%	0.0%
Minority interest	0.1%	0.0%	0.0%	0.0%	0.0%
Net income	0.0%	-5.3%	0.6%	2.5%	2.7%