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BJORKLUND FUND

October 24th, 2017

Dycom Industries, Inc.: DY

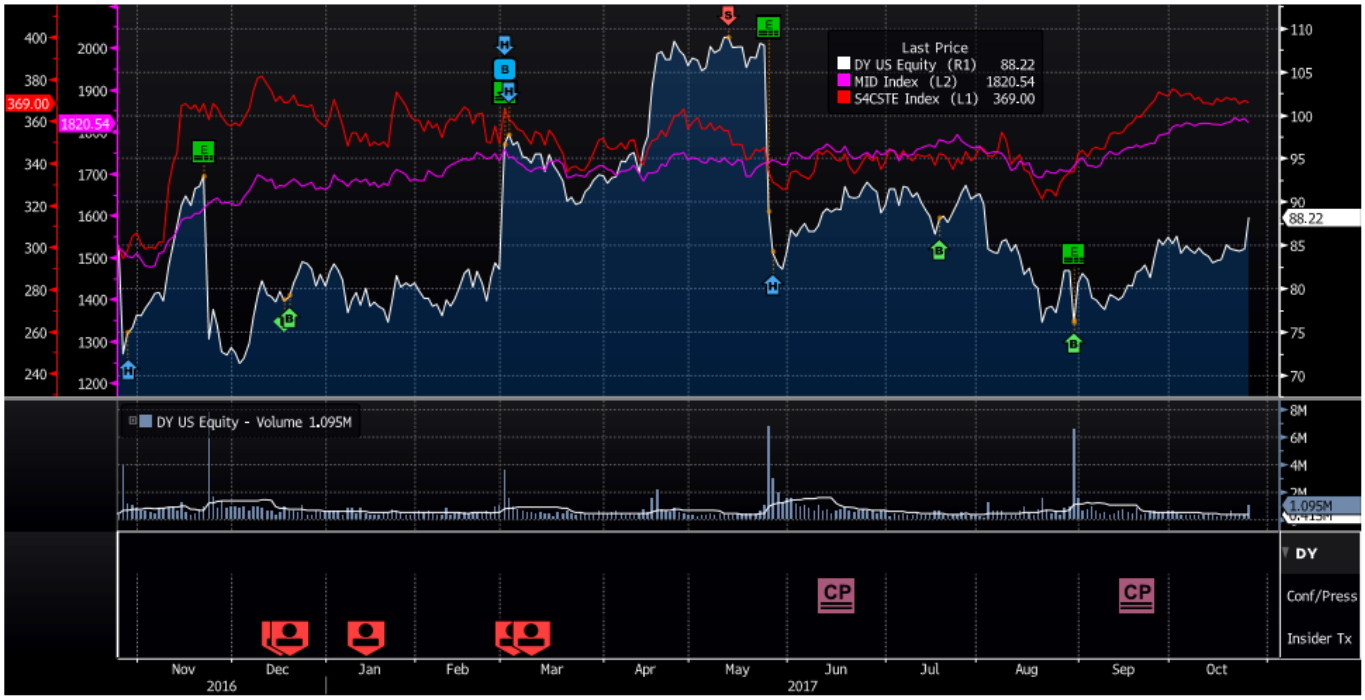
Paul Martinez

Sector: Industrial Goods
Industry:Engineering & Construction
Current Price: $84.45
Target Price: $111.23

BUY

Current Price:	$88.45
Target Price:	$111.23
Market Cap:	2.64B
Average Volume:	1.05M
ROIC:	13.06%
WACC:	9.6%

Company Description: Dycom Industries is a leading provider of specialty contracting services throughout the United States and Canada. Subsidiary companies provide program management, engineering, construction, maintenance, and installation services for telecommunication providers, underground utilities, construction, and electric and gas utilities.



Thesis:

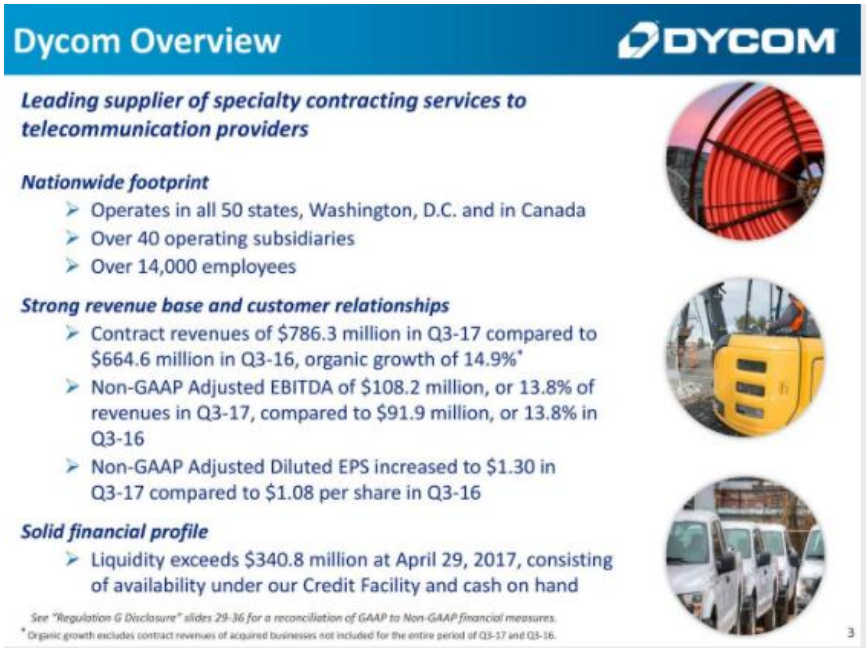
Dycom Industries, Inc. is a leading provider of specialty contracting services throughout the United States and Canada. Dycom is in an optimal market position and are currently operating in a niche market that creates opportunities constantly. Dycom is currently experiencing strong organic growth and has established a successful capital allocation strategy. Going forward Dycom can expect synergies both internally and externally that will increase margins and allow Dycom to gain more market share and blow past their competitors.

Catalysts:

- **Short Term (within the year):** Increasing number of backlog orders. Master Service Agreement's (MSAs) anchor revenues and allow for balancing out of seasonality dips in revenue.
- **Mid Term (1-2 years):** President Donald Trump's corporate tax cut proposal. Currently Dycom has an effective tax rate of 38%, which is heavily pulling down margins. In the future, tax cuts will increase margins.
- **Long Term (3+):** As technology increases, demand for quicker, more efficient internet will increase. Dycom will continue to receive revenues from their major customers, such as AT&T, Verizon, and Comcast.

Business Description:

Dycom Industries, Inc. provides specialty-contracting services in the United States and Canada. Dycom offers various services to their customers, such as, engineering, construction, maintenance, and installation services.



These services include comprising and splicing of fiber, copper, and coaxial cables to telecommunication providers. Dycom operates in all 50 states and has small portion of business operations in Canada as well. Currently, Dycom has a very strong presence in the eastern half of the United States. This presence stems from the origination and headquarters being located in Palm Beach, Florida. Dycom provides the full package in terms of servicing for their customers. Dycom provides planning, management, engineering, design, construction, and maintenance. Dycom prides themselves on the customer relationships that they currently have and the relationships that they work to obtain. Currently, Dycom's top five customers composed close to 77% of total revenues in fiscal year 2017. These relationships allow for sustained growth and stabilized revenue flow that can be represented through their increase in backlog orders. Dycom is currently operating well in a niche market and can expect to see exponential increases in revenues and margins going forward.

Company Performance:

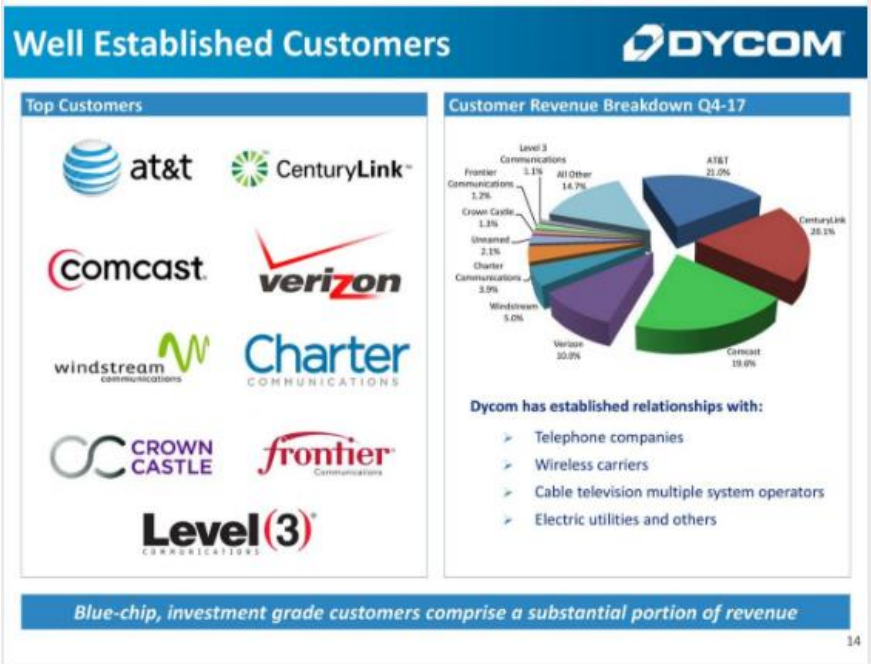
Dycom Industries, Inc. similar to many other companies in this industry encounter seasonality impacts. Dycom experiences a slight slow-down during holiday periods or long periods of vacation and other cyclical periods. This is because a large sum of their revenues are composed based on performance of other companies and the level of business that is being done by their major customers. With this being said, Dycom balances these seasonality and cyclical trends by maintaining a healthy amount of backlog contracts. These

	Name (BICS Best Fit)	EBITDA Growth (%)	EBITDA Margin	Operating Income Margin	Net Income Growth (%)	Net Profit Margin	Return on Invested Capital	Return on Assets	Return on
	Median	9.60%	9.03%	6.38%	32.28%	3.51%	7.07%	4.13%	10.00%
100)	DYCOM INDUSTRIES INC	12.17%	13.63%	8.80%	10.99%	4.81%	11.19%	8.15%	24.01%
101)	AMERICAN TOWER CORP	18.28%	58.31%	32.98%	55.23%	19.64%	6.98%	3.96%	23.03%
102)	CROWN CASTLE INTL CORP	7.02%	53.21%	25.40%	4.65%	11.84%	4.34%	1.85%	5.00%
103)	SBA COMMUNICATIONS C...	5.27%	66.34%	28.38%	236.05%	5.26%	4.85%	1.20%	--
104)	MASTEC INC	25.59%	10.47%	7.57%	200.42%	3.96%	10.99%	6.81%	21.58%
105)	PRIMORIS SERVICES CORP	15.90%	6.95%	4.10%	32.28%	2.19%	7.67%	4.40%	10.00%
106)	FLUOR CORP	-10.43%	4.98%	3.79%	-17.30%	2.06%	9.01%	4.31%	12.58%
107)	MYR GROUP INC/DELAWA...	-32.12%	5.21%	2.18%	-19.98%	1.15%	4.99%	2.84%	5.76%
108)	KBR INC	-57.23%	3.46%	2.27%	--	-0.29%	1.28%	-0.37%	-1.31%

backlog contracts are multi-year contracts that can supply a more constant stream of revenue. As reported in their last earnings call, backlog revenues were up approximately 600 million from fiscal year Q3 to Q4. Wireless backlog was quoted to be at an all-time high. This increase shows positive stability and long-term growth in the coming years. Dycom is also experiencing organic growth of approximately 5% and has been able to decrease SGA expenses by three basis points, bringing expenses down to approximately 7.6%. Dycom Industries, Inc. as depicted above is beating the median average in every category and is leading in some as well. Currently, Dycom has larger margins than their main competitor does, Mastec Inc. Dycom can expect to see these margins widen further with corporate tax cuts. Operating expenses are expected to decrease as acquisitions are integrated and synergies develop. Dycom is performing very well with double digit growth YoY, with sales growth of 14.76%, EBITDA growth of 12.17%, and Net Income growth of 11%. Dycom is in an optimal market position to expand their market share going forward.

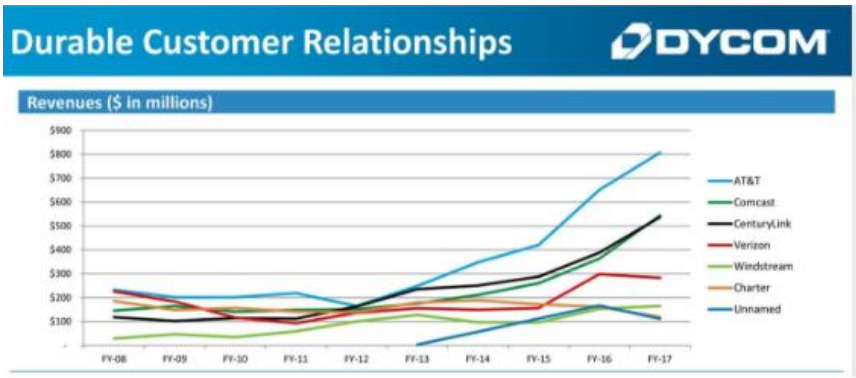
Growth Strategy:

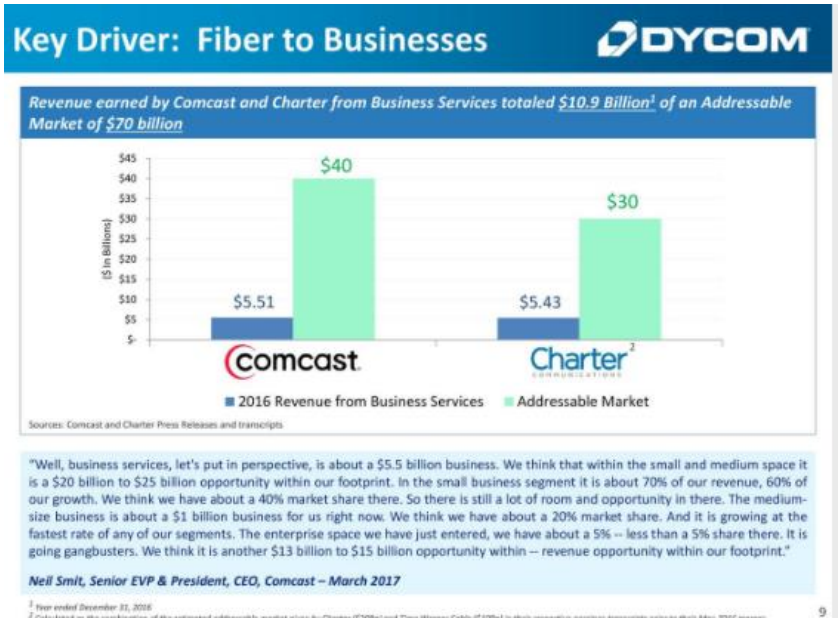
As mentioned, Dycom Industries, Inc. is in a position where they are expecting major growth in their company. Being that Dycom Industries, Inc. provides products and services for telecommunication providers, as these major providers grow, Dycom will grow. As reported in Dycom's last earnings call, "telecommunications has a large market for growth, less than 20% of total United States homes have fiber wiring". Dycom looks to take advantage of this opportunity. As mentioned in Dycom's annual report, "Telecommunications providers will continue to expand their network capabilities to meet the demand of their consumers, driving demand for our services as these providers outsource a significant portion of their engineering, construction, maintenance, and installation requirements". As humans, we are constantly demanding faster, more efficient technologies and are willing to pay more and more for them. As these providers grow, and continue to compete with each other, Dycom will continue to reap the benefits. With this being said, Dycom deliberately targets high quality, long-term industry partners. These partners generate the vast majority of the industry's opportunities as a whole. Contracts and partnerships with these companies like AT&T, Verizon, and Comcast allow for growth on both sides of the deal. Furthermore, Dycom selectively acquires businesses to expand their presence and footprint across the United States. This also allows for the establishing and enhancing of customer relationships. Due to this scale and presence across the United States, Dycom has obtained the ability to leverage themselves and expand margins through these previously mentioned strategies.



Customer Relationships:

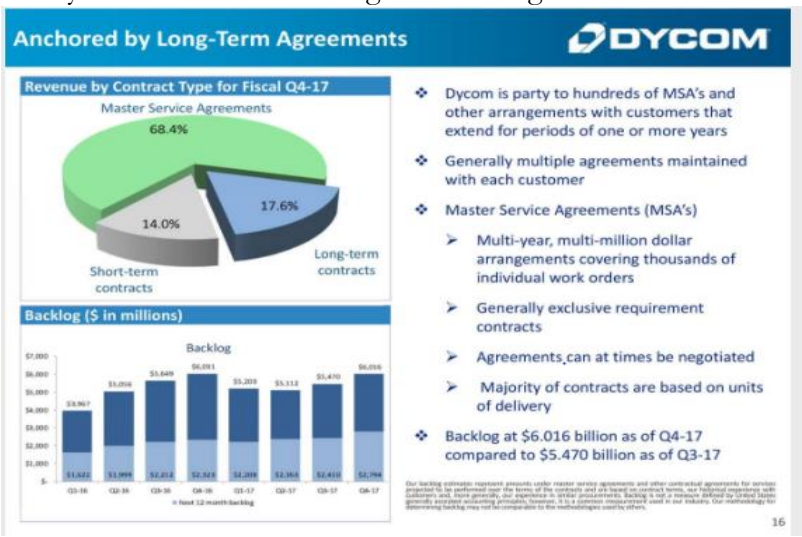
Dycom Industries, Inc. has established their business to the point where they have achieved long-term contracts and partnerships with some of the largest companies in the telecommunications industry. Dycom prides themselves on these relationships and continuously looks to improve and gain more long-term contracts with these large companies. Dycom's top five customers made up approximately 76.1% of total revenues during fiscal year 2017. As you can see in the chart to the right, these revenues are increasing pretty steadily over the years and the renewing of deals with these companies is a strong sign for Dycom. The top five customers in terms of revenue are the following, AT&T, Comcast, CenturyLink, Verizon, and Charter Communications (Time Warner Cable). As mentioned, these strong relationships with major clients is evident and very important to the company. Dycom recently renewed licenses with AT&T and Comcast, these two companies made up 40% of Dycom's total revenue last fiscal year. Major customers recently have announced their commitment to fiber wiring. Both AT&T and CenturyLink CFO's have recently been quoted mentioning this and increasing broadband speeds that would ultimately be done through Dycom servicing. With this being said, data transmissions are constantly increasing as technology and internet protocol are increasing. There is a large opportunity in many businesses, for example, the goal for all is to move from 4G to 5G. 5G speeds require more cell sites, which therefore requires more ground wiring. Furthermore, Dycom as well as major customers believe that there is a large market opportunity in some of the smaller businesses. Dycom plans to take advantage of these smaller businesses, such as Comcast and Charter.



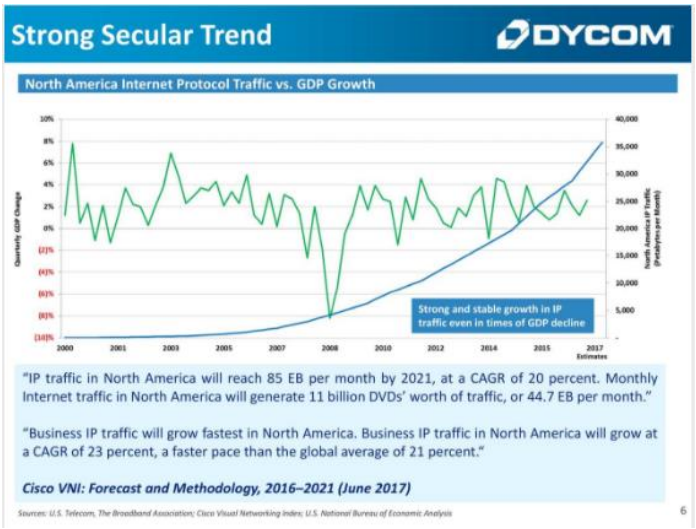


Backlog Contract Revenues:

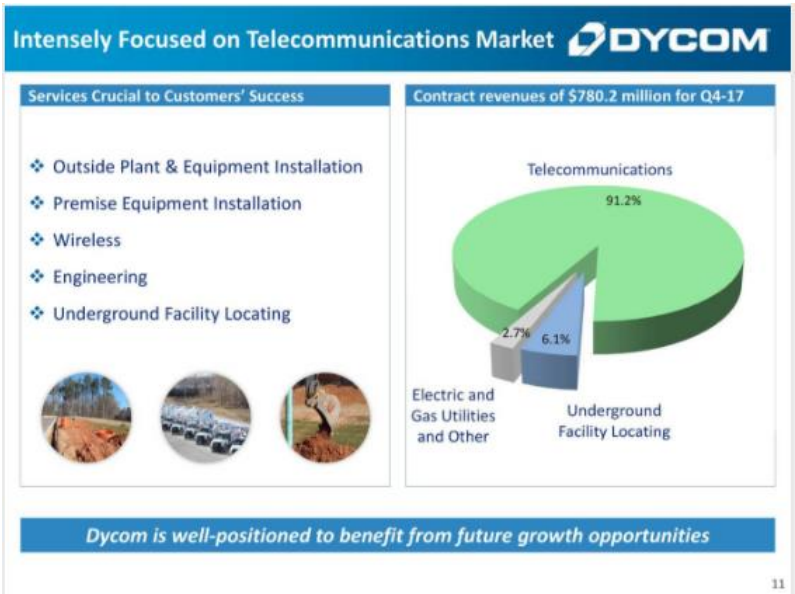
Dycom Industries, Inc. has many customer partnerships in which they enter into a Master Service Agreement, also known as an MSA. A Master Service Agreement is an agreement in which both parties guarantee future contracts or future transactions. These MSA's are normally multi-year, multi-million dollar deals that are being contracted. Historically, multi-year master service agreements have been awarded primarily through a competitive bidding process. Certain occasions warrant the extension of these agreements through negotiations. Normally these contracts are long-term in duration, longer than a year. Sometimes they may be short-term in duration and have a completion period of around 3-4 months. Recently, Dycom has experienced strong growth in their backlog numbers and long-term future contracts. Organic contract revenues grew from 727.6 million in fiscal Q3-16 to 760.9 million in fiscal Q3-17. With this being said, total backlog increased from 5.4 billion in Fiscal Q3 to 6.02 billion in Fiscal Q4. During their last earnings call, CEO, Steven Nielsen stated, "We're particularly pleased with the increase in our next 12 months backlog as it clearly foreshadows resumed growth during calendar 2018. Both backlog calculations reflect strong performance as we booked new work and renewed existing work". These backlog measurements are not defined by GAAP, however, is a very common measurement in this industry. With this being said, the increase in backlog revenues and contracts anchors revenues, and gives a forecasted guidance and stability for the future. As reported in their annual report, Dycom expects to have completed 50% of total backlog revenues, approximately 3 billion in revenues within the next 6 months.



Industry Outlook/Macro Factors:



Looking forward Dycom Industries, Inc. has a strong market position with many revolving factors that can only provide an even larger upside in the future. As mentioned, Dycom currently has an effective tax rate of approximately 38%. Recently progress has been made towards President Donald Trump's tax cut and we can expect to see a large widening of margins in the near future if Dycom's effective tax rate was to decrease. Furthermore, 92% of Dycom's revenues come from the telecommunication industry. With this being said, telecommunications companies are increasing network bandwidth, by improving wireline networks. Deloitte recently reported, "The growth in smartphone usage signals continuing opportunity for all telecom sub-sectors, including wireless and wireline/broadband carriers, network equipment/infrastructure companies, and device manufacturers". Companies are also seeing an increase in technology and internet protocol. As companies begin to transition from 4G to 5G, growth opportunities will be arising. To fuel this revolution, companies must increase the amount of cell sites and cell coverage which all requires fiber wiring. There is a strong secular trend moving forward, internet protocol has improved in times of low or negative GDP growth, with a CAGR of approximately 20% over the last 15 years. All of these factors will lead to increasing revenues, widening margins, and expansion. Dycom understands their market position and is ready to take advantage of it moving into calendar year 2018 and looking ahead for calendar year 2019.



Ownership Summary:

Primarily Investment Advisors currently hold Dycom Industries, Inc. at approximately 72%, out of this 72% major holdings come from Vanguard at 8% and Blackrock at 6% of shares outstanding. Following this, hedge fund managers hold close to 20% of Dycom shares outstanding, with significant amounts of share purchases by Point72 Asset Management and Stelliam Investment Management. Furthermore, on Tuesday of this week, CEO, Steven Nielsen, bought/acquired almost 11,000 shares of Dycom Industries, Inc. By exercising his grant now, this proves that he believes that there is value going to be created in the future. This also shows that he is and will continue to be vested in the company and continue to do his job of driving the stock price up for shareholders. In addition to this confidence from C-Suite Executives, Dycom has been actively buying back shares outstanding. Throughout 2017, Dycom repurchased approximately 3.2 million shares outstanding. Dycom has also authorized 112.1 million dollars for share repurchases through August 2018. All of the following are signs of confidence in the company from the inside out.

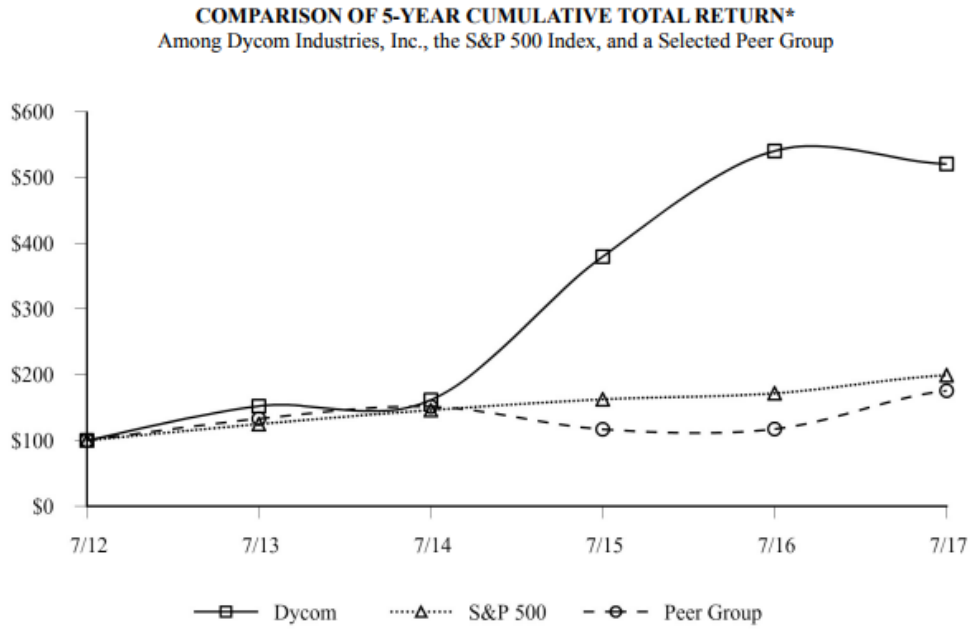
Ownership Type	10/22/17	Curr ↓	Change
11) Investment Advisor	72.21	72.18	-0.03
12) Hedge Fund Manager	19.13	19.11	-0.02
13) Individual	3.42	3.47	+0.05
14) Bank	1.59	1.59	0.00
15) Pension Fund	1.22	1.25	+0.03
16) Insurance Company	1.12	1.08	-0.04
17) Brokerage	0.56	0.56	0.00
18) Sovereign Wealth Fund	0.41	0.41	0.00
19) Government	0.14	0.14	0.00
20) Holding Company	0.10	0.09	-0.01
21) Endowment	0.06	0.06	0.00

9) Max shares bought in single transaction	NIELSEN STEVEN E	10/24/2017	10,619

Conclusion:

Dycom Industries, Inc. has experienced some fluctuations in stock prices due to seasonality falls and some small revenue misses. With this being said, Dycom is at the perfect position to grow in the future. Currently, Dycom is beating their peer groups in returns, margins, and other aspects as well. With Dycom's strong organic growth, increasing MSA's, and strong long-term relationships, they will see success throughout 2018 and 2019. Dycom is perfectly positioned to benefit from many macro events that are coming in the near future and I do not believe that the market is pricing in the caliber of these benefits. Dycom Industries, Inc. is a long-term buy.

DYCOM



Peer Group composed of the following companies: MasTec, Inc., Quanta Services, Inc., MYR Group, Inc., and Willbros Group, Inc.

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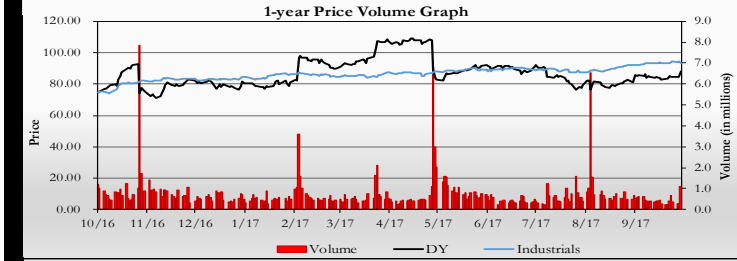
Dycom Industries, Inc. (DY)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Paul Martinez	Current Price:	$89.59	Intrinsic Value	$96.88
10/27/2017	Divident Yield:	0.0%	Target Price	$111.23

Target 1 year Return: 24.16%
Probability of Price Increase: 98.2%



Description

Dycom Industries, Inc. provides specialty contracting services in the United States and Canada.

General Information

Sector	Industrials
Industry	Construction and Engineering
Last Guidance	November 3, 2015
Next earnings date	November 22, 2017
Estimated Country Risk Premium	8.24%
Effective Tax rate	26%
Effective Operating Tax rate	26%

Market Data

Market Capitalization	$2,775.53
Daily volume (mil)	0.23
Shares outstanding (mil)	31.11
Diluted shares outstanding (mil)	31.98
% shares held by institutions	116%
% shares held by investments Managers	87%
% shares held by hedge funds	20%
% shares held by insiders	4.43%
Short interest	16.67%
Days to cover short interest	7.85
52 week high	$110.64
52-week low	$70.33
Volatility	39.78%

Past Earning Surprises

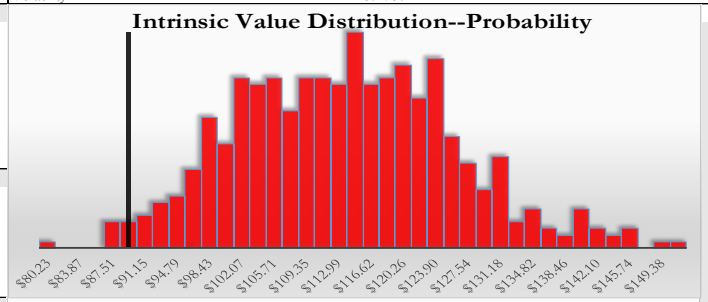
Quarter ending	Revenue	EBITDA
7/30/2016	2.61%	0.92%
10/29/2016	0.02%	-4.00%
1/28/2017	6.16%	2.86%
4/29/2017	6.90%	-0.92%
7/29/2017	-2.35%	-5.78%
Mean	2.67%	-1.38%
Standard error	1.8%	1.6%

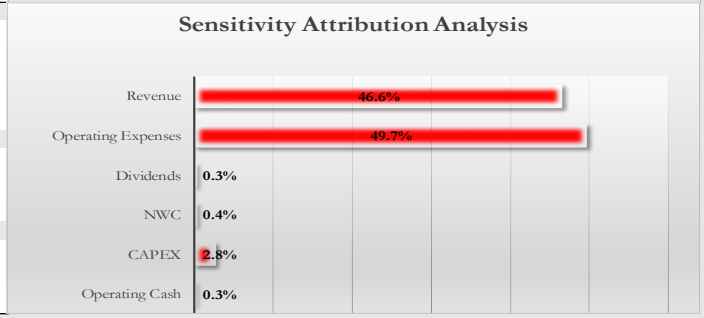
Peers

MasTec, Inc.
Primoris Services Corporation
KBR, Inc.
Granite Construction Incorporated
EMCOR Group, Inc.
AECOM
Jacobs Engineering Group Inc.
Quanta Services, Inc.

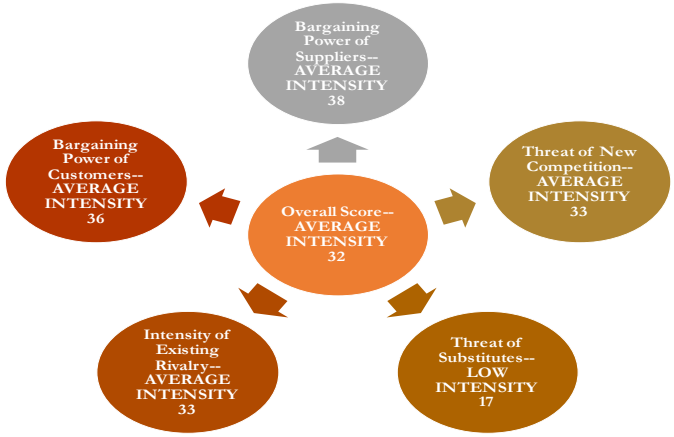
Management	Position	Total compensations growth	Total return to shareholders
Nielsen, Steven	Chairman, President & CEO	5.23% per annum over 6y	2.33% per annum over 6y
DeFerrari, H.	Senior VP, CFO & Treasurer	10.87% per annum over 6y	2.33% per annum over 6y
Estes, Timothy	Executive VP & COO	5.04% per annum over 6y	2.33% per annum over 6y
Vilsoet, Richard	VP, General Counsel & Corpor	6.42% per annum over 6y	2.33% per annum over 6y
Dickens, Kimberly	VP & Chief Human Resources O	6.08% per annum over 2y	18.88% per annum over 2y
Roach, Rebecca	VP & Chief Accounting Office	N/M	N/M

Profitability	DY (LTM)	DY (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	11.8%	8.30%	6.34%
Operating Margin	6%	3.50%	3.04%
Revenue/Capital (GAAP)	2.13	2.37	2.08
ROE (GAAP)	32.5%	16.3%	11.6%
Net margin	5.9%	3.4%	3.3%
Revenue/Book Value (GAAP)	5.51	4.74	3.55
Invested Funds	**DY (LTM)**	**DY (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	2.3%	4.0%	15.0%
NWC/Capital	36.0%	45.9%	11.6%
Operating Assets/Capital	42.1%	24.0%	37.1%
Goodwill/Capital	19.5%	26.1%	36.2%
Capital Structure	**DY (LTM)**	**DY (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.60	0.55	0.42
Cost of Existing Debt	5.1%	7.2%	3.9%
CGFS Rating (F-score, Z-score, and default Probability)	AA	BBB	BBB
WACC	11.2%	10.9%	8.3%





Porter's 5 forces (scores are out of 100)



Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	15%	9.0%	2.15
7/29/2018	5%	5.7%	1.99
7/29/2019	11%	6.5%	1.94
7/29/2020	5%	6.6%	1.82
7/29/2021	5%	6.7%	1.70
7/29/2022	4%	9.2%	1.59
7/29/2023	4%	9.2%	1.45
7/29/2024	3%	9.3%	1.33
7/29/2025	3%	9.4%	1.22
7/29/2026	3%	9.4%	1.13
7/29/2027	2%	9.5%	1.05
Continuing Period	2%	9.6%	0.98

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	19.4%	11.2%	$94.46
7/29/2018	11.5%	10.8%	$108.49
7/29/2019	12.7%	10.8%	$121.69
7/29/2020	11.9%	10.9%	$135.46
7/29/2021	11.4%	10.9%	$149.63
7/29/2022	14.6%	11.0%	$164.16
7/29/2023	13.4%	11.1%	$179.00
7/29/2024	12.3%	11.1%	$194.03
7/29/2025	11.4%	11.2%	$209.27
7/29/2026	10.7%	11.2%	$224.67
7/29/2027	10.0%	11.3%	$240.17
Continuing Period	9.4%	11.4%	