The Stock Podcast Interview Transcript

Participants

Duke Austin, CEO and COO at Quanta Services (PWR)

Nate Abercrombie, The Stock Podcast

Interview Transcript

Nate: Duke Austin, thank you very much for joining The Stock Podcast. I'm excited to talk to you about your background and your business.

Duke: Yeah, good morning. Happy to be here.

Nate: If we could just first start our hearing about your background, anything you'd like to share about your background, how you first started at Quanta, and I know that you have an interesting history in the sense that your dad had a company that you started working for a long time ago, and then it eventually became part of the Quanta family, and I would just love to hear as much as you'd like to share.

Duke: Yeah. You know, native Houstonian, family's from here, and we had a family business here in town, fourth generation. My great grandad, grandad, dad all worked for a public utility company here in Houston, and eventually my father went in to work for a small, he was the third employee, at a company here in Houston, ended up buying it in the '80s, so I was always... always grew up in the business and went to the field with him, and went and worked in the fields when I was a kid through the summers and even after that. And, so I knew where I was going out of college, and came back into the family business with my father. You know, we internally grew it. It was about a, let's call it, seven or $8M company originally, and then we grew it to close to seventy and in 2001 sold it to Quanta. I had a health issue. I had cancer when I was 31, so which is a unique story of three babies in diapers, and we needed a great place to sell our company, and John Colson who founded the company was here in town. We knew him well, and we wanted our people in a good place and knew Quanta was a great fit for ourselves and our people. Perfectly healthy now. I've been 16 years out, so which is a great story as well. But, a great place to put your people in a family business. And, the company now is the same company, let's call it $800M, and so it has quite the growth story as well.

Nate: So, could you tell us just a little bit about Quanta's genesis story?

Duke: Yeah, sure.

Nate: So, when was the company first established? And, you mentioned the original founder, but if you could just share a little bit of the background there, that'd be helpful.

Duke: Yeah, I mean, Quanta IPO'd in 1997 around 150 million. Really, the genesis around it was is the utilities were consolidating and still are in many ways, and there was smaller contractors, you know, that were in the business regionally, locally, and the utilities would continue to look for larger, more sophisticated ways of contracting. And, John had the fortitude to consolidate the industry a bit with, I think it was four or five founding companies, and IPO. And, I guess the rest is somewhat history. It continued to make acquisitions. I believe the company's made over 200 acquisitions over time, and one of the success stories of what you would consider a roll up, certainly we're more mature than that now. But, back then, that was where it started, and it was based around the consolidation of utilities.

Nate: Yeah. And, so could you just talk about what Quanta does?

Duke: Yeah, sure. I mean, at the very core of Quanta, we're really all about craft skill labor and understanding that labor force, and using that labor force and our ability to execute and cost certainty and layer on top engineering, engineering capabilities, technology, solutions. So, we've become more of a solutions provider around utility based infrastructure and energy based infrastructure when we look at it. It's very similar to a reverse model that you would see to your traditional E&Cs where we lead with construction verse leading with engineering, and it provides cost certainty to our customers, which is what we're trying to accomplish. So, whether it be telecom, energy services on the downstream markets, we primarily work in the electric markets, not the power plant side. So, typically we would take it from the power plant to the house but not in the house, so kind of anything with a bed in it, we don't do. So, we would not be in the electric company that would go inside a hotel or a hospital, but anything on the high voltage side we do. And, on the gas side, same thing really. We don't go down hole. We come out of the well all the way to the downstream markets, and we really don't build balance of plant downstream. So, large multi-faceted plants we're not, that's not us, LNG we'll do peripherals around it, but not to actually build the LNG plant. Primarily, the craft skill labor around energy, utility, infrastructure.

Nate: Yeah. And, you said that you guys lead with construction as opposed to the back-end engineering. Could you just sort of describe what that means? And, just full disclosure, my wife actually works for AECOM, but I don't think maybe listeners who are first looking at ENC companies understand exactly what you're talking about.

Duke: Sure.

Nate: So, could you just explain a little bit more what that means to lead with construction as opposed to back end engineering.

Duke: Yeah, sure. So, primarily when you look at a construction job, you know, a big piece of it will be labor and material. Engineering's only less than ten percent, so we lead with the labor piece of that project. So, we can lump sum a project. We still perform 85% to 90% of work, so we don't use subcontractors. So, having that labor force, having the certainty around it, it allows us to tell our customer within... very quickly what we believe the cost will be, and by the way, we'll stand by it. So, I would say a good portion of our business we have certainty in, and we're not scared to stand behind the construction risk. Because, that's what we are. We understand those risks, and we can price them. And, the customer, in the end, they get a good product that they want, that's bankable, that we can lead and be certain that labor will show up. As you know, the US labor market's extremely tight. Craft skill labor's even tighter. You know, we'll go into it later I'm sure on what we've done, but I would say in general, the ability for us to deploy craft skill labor to any job site in the world makes a big difference to our customers. Where, in the past, engineering companies could price subcontracts and things of that nature, but today that's not a certain thing. Subcontractors may or may not be there for them, and the client is unwilling to take that risk.

Nate: Yeah. Wow. I didn't realize you guys self-perform on such a larger proportion of the work that you do. That's impressive.

Duke: Yeah. It's a big number. I think it's a misnomer in kind of the company, and why we're different. I believe if you'll go to maybe AECOM or Fluor or some of those guys that are still performing construction, you'll see that it's much, much less than that. I would... Probably inverse of what I'm saying.

Nate: My wife, just going back to her and AE-Comm, a portion of the work that she does she deals with a lot of different vendors, but if you have that all in house that makes it a lot easier.

Duke: Yeah, and I think that's the beauty about Quanta, the balance sheet, the things that we've done. I think the vision was always when we consolidated we could handle larger projects, and we just signed the largest project of the company. That's really starting to come together. It's taken this long to get there, but we're here, and we're starting to see kind of the vision come to pass here as we move into 2020.

Nate: Yeah. So, could you talk about who your customers are? And, you don't have to name specific names if you can't or don't want to, but I'd love to hear just kind of some examples of who your customers are for each of your segments.

Duke: Yeah. So, if you... on the electric side of it would be primarily... we work for 95% of the utilities, such as Florida Power, Southern Company, Duke Energy, CenterPoint Energy, PG&E, Southern Cal Edison, and then we'll work for municipalities, such as Lower Colorado River Authority, primarily invest around utilities. They can be gas or electric. Many of them are consolidated today, so you could get Atmos Gas that's not or a CenterPoint Energy that is. So, many of our customers have consolidated, own gas assets, so it allows us on the distribution side of the business, what we call local distribution networks on the gas side, it could be the same customer. We're working for them both gas and electric, which is really our model. About 60%, 65% of the business is a utility piece to it, whether it's gas or electric. Then we got the telecom piece of the business, which is Verizon, AT&T, CenturyLink, Comcast carriers that deploy fiber and move data across their systems. So, that's a big piece of the telecom business. On the gas side, we go anywhere from the Valeros, Exxon, Gulf Downstream, Exxon Chevron downstream, over into large pipe carries such as TransCanada, Enbridge, anyone that's moving molecules across the systems, that's where we're at from that standpoint. So, we'll go all across the board.

Nate: Yeah. And, geographically, where are you guys? Where are you operations?

Duke: Yeah, so if you look at us geographically, about, let's call 80% of the business, is US based. You got about 17% in Canada, and 3% between... primarily in Australia. A little bit in Latin America, but not much.

Nate: Yeah. Well, I've always been curious about the Australian business. Why... What's the attractiveness of... I mean, it's been small for a while, right?

Duke: Sure. Australia is a crown to win. When we think about Canadian and Canadian labor and how we can move Canadian labor back and forth, it's very easy to move Canadian labor to Australia, and so Australia's in very early stages of renewables. They're a little bit behind the US as far as infrastructure goes, so we're able to kind of see models change. And, the models they're changing to are US based models, so for us, we can get ahead of those things, and it allows us to have an advantage, a competitive advantage, on infrastructure. We've taken it fairly slow due to the growth in North America, but I think in general, it's a great market long-term. It's got good laws. They speak English. Many of our customers are there. So, we typically follow our customers. Some of our Canadian clients, such as ACO, have infrastructure in Australia, so it really gives us some advantage there, and I like the market long-term.

Nate: Yeah. Yeah. And, so what about the asset portfolio? Apart from having a large employee base and sophisticated set of individuals who can do all sorts of different things, what types of assets does Quanta own?

Duke: I mean, as far as property, plant, and equipment, I mean, we own trucks, diggers, things like that. I think we were in the fifth largest fleet, and you know, in my mind, it's mainly just equipment that would allow us to build infrastructure primarily. We do own some small assets as far as utility-based assets. We own a little bit of a system in Canada and a few more things here or there, but it's very minor in the overall scheme of the business.

Nate: Yeah. Okay. What about your competitors? Who are you competitors, at least here in the United States and Canada?

Duke: Yeah. That's a good question. I think, in general, Quanta's unique in many, many ways. We have local competitors on any side of the business, which can be regional based. When you look at it in the public markets, you have MasTec, which is a competitor on the gas side, a little bit on the electric, some on the telecom, and you'll have a Dycom that's just telecom. You'll have Meyers that's just electric. Primoris would be someone, but all of them are unique to their own way. And, I think we're just a little bit different from some and a lot different from others, and we'll get thrown into the Fluors of the world or AECOM, Jacobs, at times, but we're different. All of them, for that matter. We're just different. And, so we're just in a weird spot that we constantly try to educate the market on who we are and what we're trying to accomplish, which is really just provide solutions to infrastructure around technology, the advancement of technology. And, I think many of the things that the world is trying to accomplish, it needs infrastructure, and we're in front of every, single piece of that. And, it's not government-backed. It doesn't need government money, which I think is another unique piece to it as well.

Nate: Yeah. What do you think is the most important thing for Quanta to focus on when it comes to the competition? And, you mentioned how you're different, and I imagine that part of that is the self-perform component. But, as it relates to the customer, what is the most important thing for Quanta to focus on?

Duke: I mean, if you ask me the success from Quanta is, we want to collaborate and make our customer better, and so... or help them achieve their ultimate goals. And, I think that's what we really work on is providing solutions that allow them to achieve their earnings or earning streams, or whatever they're trying to accomplish on any given day, and figure out how to help them best succeed. And, that's been kind of... we've been customer concentric on that and have always tried to be up and down the value chain on any customer and work collaboratively in a collaborative effort. And, if they're successful, we're successful. Many of our customers, I would... We have a... You know, we kind of talk a lot about our utility customers, and many of them we've had for over 20 years, so we're very sticky. We stay very close to the customer and make sure that we're performing from an execution standpoint, and when they're deploying capital in their capex, opex budgets, you know, they depend on us to deliver that on a yearly basis. And, certainly we have to have the infrastructure in place, the people in place to do so.

Nate: Yeah. So, you described the story, at least initially, it was maybe viewed as a roll up story, and you've made... I didn't realize it was such a large number of acquisitions over the years, more than 200. That's a big number. Do you mind just taking a few moments to talk about the recent acquisitions that you've made?

Duke: Yeah. I mean, I think when you look at what we've done, I've had this role for three and a half years, and we've really said we want to concentrate on our base business, our core business, and that's primarily serving the utility industry. And, the reasons why is we believe over time it's predictable. You can see it. In recessions the impact's not as great. So, all those things really make it a good place for us to expand the company, and when we've looked at acquisitions, we look at acquisitions that have great management teams, long-term growth plans within their own company. So, we're able to look at the... when you transition from the original owner to the next generation, what does that look like? But, we really want our management teams to stay. We don't try to get rid of management. That's actually the opposite. We want everyone to say and grow the company, and that's why we invest in those type of companies. But, you know, strategically, we've said we want to grow the base business. We'll continue to invest in great companies that help us evolve in that space. We're not running away from the project-based business, but we believe we have enough assets already in place to construct anything that would come our way from a project standpoint. So, the investments that we made are critical path type solutions or around the utility business. We bought an industrial business downstream. It gave us a great platform, let's call it two years ago, so that has been something that we moved into the energy side of the business as well downstream. And, it's been a great addition, and what they do is critical path on turnarounds and things of that nature. It's not predictive, and we really like that business as well.

Nate: And, with regard to the most recent acquisitions, I think it's really... I'm sure we'll get into this, but you were talking about the project-based opportunities and then... and from your press release, I get the sense that this most recent acquisition, at least the one that you named, Hallen, it sounds like it's more of a reoccurring type of revenue business where you're doing sort of more maintenance type of work for utilities. Is that correct?

Duke: Yeah, that's right. I mean, it's a gas-electric distribution serve provider there in the northeast. It gave us a great platform, great family, great leadership. It'll allow us to grow our northeast markets and a platform to do so. So, a lot of older systems in the northeast. Labor, certainly need a good platform there, and Hallen was there since 1927. It really allows us to grow off the family's hard work, and certainly, they're willing to stay with us and we've sought that company for a long time, understand them, they understand us. So, we're really excited about that. But, again, it's based around the expansions of the capex that's necessary to update, modernize, both gas and electric systems across the northeast. That was the reasoning behind that, and I think that'll stand. And, when you look at our business, we think we can grow, call it 75%-80% of our base type work, which is 8-9 billion of annual revenue, mid single digits, and it's really off the expansions of the capex, opex of our customers. And, so to do so in the northeast, we really needed a good platform, and we believe Hallen provides that for us.

Nate: Yeah. And, you mentioned in the press release, and you also mentioned it about your family's business, about the importance of... Well, it seems like there is some sort of importance around... family-owned types of businesses are more attractive from Quanta's perspective to acquire. Why is there that reoccurring them of like family-owned. What is it about a family-owned business?

Duke: Look, you know, I won't say that's the only thing that we acquire, but that's what we understand. We certainly understand the nuances and the aspects of running one, and my background, many of the leadership here's background, was family-owned businesses. And, so, you know, that's what we really did, and I think for us, we stay within that, and we understand. We understand how to look at management teams, what makes one go and what makes one not go, so it allows us a unique opportunity to invest in. You know, as someone's transitioning generationally, there's an event in their life, I don't know that we would have sold our business if I didn't have a health issue. So, Quanta's very patient, and we know the good businesses out there, and we're here if they have a family event, and they certainly know that we're a good place to provide the rest of the team a great place to work forever. And, we're really looking at longevity. We're not trying to sell businesses. We trying to keep hold of them and grow them, and we've done a really nice job, I believe, of putting together what I would consider the best management teams in the industry. And, as we've evolved, I mean, it's not all about families now. We have a great, young leadership team that we've grown within the corporation culture here that certainly are capable of running these companies in the future. So, it's just a continuance of good, sound operational skills that the families, when you have to make your own payroll, and you have to make your own banking relationships, all your cash flows and things of that nature, it provides you with leadership in the field that understands markets and understands how to create cash flow. So, they already get all that, so you're not having to teach any of those skills, and it allows you to expand fairly quickly.

Nate: Yeah. Could you talk about your long-term strategy or vision for the company? And, another way that I like to think about this is just when you step down from the CEO role, what do you want Quanta to look like? Or, what do you think are the two or three most important things that come to mind, you know, aspects or characteristics of the company that you'd like to see when you step away from Quanta?

Duke: When I look at it, I'm look five years out, ten years out today, so I just... I want to make sure that we're well-respected within the industries we serve, not only as a supplier but part of the very fabric of the electric, gas, telecom side of it, and we've made a difference in the industry. Safety's a great example. Training's a great example of some of the things we've done there that I believe will eventually set the company apart, and also our customers recognize the fact that we're not only working for ourselves, we're working for the good of the whole industry. So, it's really important for me to make sure, not only does Quanta succeed, but also we have good sustainability, we have good inclusion and diversity within the company that allows us to grow that all out as we move forward. And, you know, we work on that as a daily basis. For example, a year ago or so, we bought a college, and people said, "Well, why would you buy a college?" And, we got a lot of questions on it, but it was really about the training piece and the curriculum, and the thing is we have five campuses that we bring kids out of the military, out of school, that come into the trades, and for fifteen years the US did nothing on trade schools and things of that nature.

Duke: So, it's really given us an advantage, I believe, and enhancing our customer the way we look and feel to them, and helping them with their labor strategies and their deployment of labor. So, if we become very, very successful in understanding labor, recruiting labor. How do we do that? How do we provide great jobs for people that don't want to go to college is where we'll sit, and I think when I leave, I hope we're world class, if not the very best, at providing those types of jobs to kids that do not want to go to school, to get an education, or just want to go to work.

Nate: Yeah. I wish I would've known about that before I went to school. I probably would've went down there.

Duke: Yeah, it's a great... I mean, look, I have a son that wants to get in the business and wants to understand the trade, and he's going to go to school and do both. So, many a times we'll have kids that get educations and they want to get out, and you can work anywhere in the world once you have a craft. And, so these kids come out ladies and gentlemen, and they get in it, and they make very, very good money, and they're able to see the world and go anywhere they want, and will always have a job.

Nate: Yeah. Yeah. Kip was kind enough to extend an invitation to me when I was at Janice to go down to the training facility for that Investor Day that you had out there, and I really wanted to go. But, unfortunately, I don't think we owned any Quanta at the time, so my company wouldn't let me go. But, I really wanted to come down there for that training, that investor relations event, because it looked like a lot of fun and looks like you might learn quite a bit.

Duke: Yeah, a great facility here outside of Houston, a training facility, and we've added the colleges and the curriculum to that, so yeah, it's highly advanced. We're very proud of it.

Nate: Yeah. So, could we move on to some of your segments? And, starting off with electric power, could you just talk about... So, this is something that you mention on your earnings calls, and I don't think it's something that a lot of people fully understand what it mean, so grid hardening, what does that mean?

Duke: So, if you look at wind or you can have ice, sleet, whatever loads systems up, and really, many of the structures in the US are wood. So, you have wood structures and... You know, look, a lot of the grid was built in the '50s, so when you think about it, all the wood in the '50s, even still in the '50s, things deteriorate over time, and when they're fully deteriorated you have to go back with something that's more capable of handling wind and load from ice or sleet or snow or whatever it may be. And, what's happened is when a hurricane comes through the gulf coast, lights are out 10, 12 days, and I think the industry's done a nice job of starting to put concrete, steel, even underground, some systems that allow a much faster time for restoration. You've seen that with NextEra and FPL. They've done a really nice job there on their capital deployment to harden those systems, and then that's also moved all the way through the gulf coast.

Duke: And, on the eastern seaboard, the same thing but as well as ice. Now you're seeing it on the west coast with fire. And, what we consider there is either you underground it, you put some steel structures, some concrete structure, and you just... you basically make it fireproof, windproof. You know, obviously a tree can fall and knock everything down. You're never going to get away from something like that, but it certainly enhances the restoration times. And, look, a lot of it's around safety as well. The fire is a great example of something that happened. Don't know exactly how those things happen, but certainly the utility system at times can play a role in that, and that's something that I believe the industry is going to try solve there in the West Coast.

Nate: Yeah. Yeah, you mentioned the Gulf Coast and Florida and California. Could you just talk a little bit more about how you're thinking about the opportunities going forward, given the fact that we have been experiencing more extreme weather events and the recent fires within PG&E's system? What does that mean for Quanta? What's the long-term opportunity for you?

Duke: I mean, if you... I think if you look at the consumers, the utilities really ultimately work for their ultimate customer, the consumer, and if you want to have electrical vehicles, if you want to have stability in the systems, they need to be redundant and modern with switching capabilities, things of that nature. So, in order to get all those things that technology will advance us in the world, you've got to have good infrastructure similar to a highway system or anything else. And, I think what you're seeing is you're seeing the utility industries in the early stages starts to deploy capital at very low interest rates, fuel costs off gas or down, and so most utilities are investing in their grids to modernize them. And, it's very good time. The consumer's really not seeing much difference, if not a deduct, on their bill, because fuel's down and so is interest.

Duke: So, they are able to get long-term, utility-grade bonds to build infrastructure. And, if you're a regulator or a utility, it's a great time to invest. Technology's also pushing that investment. So, we're seeing very much a modernizing, hardening of utility systems across the country, whether it be from a loss of life, unfortunately, or to modernize to get ready for electric vehicles, whatever it may be. And, certainly, renewables are playing a role in that as well as we look at the carbon footprint of our customer base.

Nate: Yeah. Yeah. So, I had a conversation earlier this year with Xcel Energy, and because we were... Bob, the CFO, came out to Denver to their office. And, I was asking him about undergrounding of electric wires here, because we're seeing snows later in the year, earlier in the year when leaves are still in the trees, which ultimately means the branches break, they fall on the electric wires, and we don't have power for... My worst experience was three days we didn't have power, and it was really cold. And, so that's a problem, especially now that I'm working from home. But, my question to you is what is the difference in cost between undergrounding electric wires versus just building them above ground?

Duke: The cost is significant, and it just depends on where you're at. I would say rock and things like that have to do with that. I mean, obviously, if you're in good ground and things of that nature, it's not as difficult. If you're in dense areas... So, the variables in cost are exponential in certain areas. It's always double. I mean, you can always say it's double.

Nate: Yeah.

Duke: For sure. It's just a matter if it's ten times or in between two and ten. It's certainly not insignificant, and I think when you say let's underground, you need to really get planned and have good public sentiment to want to do that. And, in certain areas it makes a lot of sense, and some it does not. So, I think as a utility, they make good decisions based on what they believe or economic for a go forward basis and the rate base and regulator can handle. And, as the world changes, I do think you'll see more undergrounding, especially with the event-driven environment that we have. People are unwilling to be out of lights weeks on end. It doesn't make sense, and so I think as that moves forward, you'll see more undergrounding.

Nate: Yeah. You said it earlier in this conversation, but more than 60% of your revenues comes from regulated utilities. And, I don't think a lot of people really get the significance of that with respect to just consistency in your revenues, or at least consistency in your opportunity to work with utilities and see projects come through the pipeline. Could you just describe what the significance is with working with... you know, with having such a large portion of your business coming from regulated utilities?

Duke: When you look at our customers, AEP, whoever it may be, they have great capital plans with long-term visions, and their CEOs do a really nice job of laying those out. We are the ones behind the T&D systems, building a lot of those systems out for them. They have some internal resources, but that's certainly, with attrition, has gone to the wayside for the most part in many areas. And, so you don't see utilities with big craft skill labor forces. They stay for the routine, but we're certainly in a cycle, a long-term cycle, multiyear, maybe even decade cycle, of build an infrastructure. And, they're not building workforces for the peaks. We certainly are building our workforce to handle this for a long period of time and have been supporting that growth. So, we really like it. It's a regulated business that is necessary, that we believe that if you don't modernize these systems when you talk about automated vehicles, electric vehicles, things of that nature that you believe are moving into markets, if the grid does not harden or the grid does not modernize, you can't support technology or growth.

Duke: And, that even goes back to 5G on the telecom side and how we sit there. Certainly, technology's there to have autonomous vehicles and things of that nature, mobility, that's not happening today, and infrastructure will be what holds technology back, and that won't last long.

Nate: You're spread out over all of the United States, and there has been, over the last couple of decades, this transition from regulated to deregulated markets. How would you compare and contrast the opportunities for Quanta in deregulated markets and regulated markets? Has deregulated markets just sort of... Has it been slower growth for you or just not as consistent, or just the opposite?

Duke: It'd be the opposite. Actually, you know, when you think about regulation, it typically, the deregulated markets, don't affect the grid, the grid co. So, normally the T&D systems are regulated no matter if you're a non-regulated market per se. Now, you have utilities with non-regulated arms such as NextEra that will have Florida Power & Light and then have NextEra energy, which is all over the world, for that matter. And, so you're working on both sides of that, and then that's really the transition from the tradition utility that we've followed, where our customers have got into the gas... they went from electric to gas to telecom to large diameter pipe, even to some processing infrastructure. So, we've really followed that customer base, providing our solutions to them across a broad spectrum, and moved into those markets with them, and that's really grown the company. So, I see it as an opportunity.

Nate: Yeah. So, could we talk a little bit about pipeline and infrastructure? And, earlier you mentioned gas quite a bit, but I'm curious, which one are you more levered to? Is it oil or natural gas?

Duke: It's a funny thing. We correlate to oil pricing, which I have no idea why. It makes no sense to me at all. We're not even really a function of that. So, it doesn't matter if it's water, gas, or whatever in a piece of pipe, we're usually building it, and I... in my mind, where natural gas comes into play is the cost of. A cheap form of energy will allow expansion of infrastructure, because the rate payer is not going to see these huge bills. And, I think that's what's made it nice and nice runway for all of North America to really invest in infrastructure. We should have a world class grid over time that certainly would be the rival of any modern country.

Nate: Now that we're moving into an election season, I'm curious whether or not you have any strong thoughts as to what some candidates are saying. I know that Elizabeth Warren said the other day something about banning all fracking, which just seems pretty ludicrous to me, and you know, I'm an environmentally conscious person, but to ban all fracking would just seem to be an extremely detrimental thing to do for both the economy and the transition away from cool. But, anyway, I'm just curious what your thoughts are. Are you concerned about what's going to happen in 2020?

Duke: I mean, I think people in general have common sense, and you come to the middle in many ways on energy. You need a good platform there that's not one or the other, whether it be natural gas, coal, nuclear. I do think coal's going to have a tough time going forward. Everybody does. And, I think all the people that use coal are transitioning away from coal somewhat, and so I do think that that's something that is going to eventually be less and less of the systems. That being said, natural gas is certainly clean and certainly plentiful. So, you can store it. You can do a lot of good things with gas. And, you know, look, we're making good strides in renewables and batteries, so I think it's a combination of all of it. And, if you're close to the industry, you see the industry evolving by itself. It doesn't need regulation to evolve. It does it on its own. It does it for economic reasons. It does it for right reasons, and I think that the industry itself and the CEOs that are on top of these things, they get a lot of bashing, and it's unfair and unjust in many ways because they're very much committed to making the environment better but also making sure that energy pricing are stable.

Duke: If the Eastern seaboard goes out of power for a period of time, certainly that'll be the utility's fault somehow, and if you can't build pipe and infrastructure in there to supply gas and things of that nature as that population grows, you're going to have issues. And, I think we have to address those as a country.

Nate: Yeah. So, sticking with pipeline and infrastructure, could you just talk a little bit about your efforts to sort of move this segment further downstream? I mean, just what's the overall strategy there, and how would you like to see that segment several years out?

Duke: Look, I think when we look at the pipeline industrial segment, when we think about it, it was very project driven, and you've seen us transition to more utility driven with the gas distribution systems. Our industrial business is around maintenance that's necessary that has to be done, such as catalyst replacements, high voltage things on the industrial base that when you have a turnaround or you know those things are imminent, we really want to make sure that if a customer has a turnaround that we can do it faster than anyone else and safer. And, that's what we really work at, and we train at it. We do a lot of things that I think are extremely important, and we have world class management teams on that industrial side.

Duke: It really is allowing us a platform to grow. Many people will say they can do a turnaround, and they'll show up with 30% of the labor that's necessary and it takes a client, you know, let's call it a third more time, to turn something around. And, what you may see is a savings turned into a really a huge cost when you have those plants down, so I... we just continue to try to separate ourselves and provide that solution that our customer gets comfortable with that we will deliver.

Nate: Could you talk about communication services? This segment is something that Quanta has had experience in. You had a telecom business several years back. Then you sold it, and now you are now dipping your toes back in the communication services business. Could you just talk about what your efforts are in rebuilding this segment?

Duke: Yeah, I mean, we stayed in the segment in Canada and Latin America, even when we sold it. We just sold our lower 48 assets there, and our companies there in lower 48. So, look, many of us, my company included, grew up in the telecom business, understand it quite well, and the carriers their selves were asking us to get back in the business due to the fact that there was such a demand for fiber and fiber deployment. And, we're in a perfect space. It's linear construction. The equipment's almost... it's identical, so we can get better utilizations out of our whole fleet.

Duke: Our people understand communications and how to... the infrastructure behind that. It's the same workforce for the most part. A little bit different on the specialized things, but much of the same workforce. So, we we're able to really deploy and build up those resources fairly quickly, and we love the macro market of fiber. And, I think when you look at 5G, a lot of the 5G, when you think about it, is really going to be in the electric space, and when I say that, it's going to be an electric lineman that has to deploy it fundamentally. And, where we sit in that space is we're market leader, and I think for us not to get in the communication business would have been a determine.

Duke: And, I... it made perfect sense, and we got back in it. And, I really like where we sit, and we think we got a... we're sitting on a billion dollar business over the next three to five years, and I'd say more like three. And, we're working hard at building that business and increasing margins as we get scale out of our offices, and that's certainly happening today. And, our carriers and our customers are continuing to build our customer base back, and I think they're all, you know, understand what we can do and we're delivering. So, I like the business long-term.

Nate: Yeah. How is 5G... How is the build out of 5G different from the 4G and 3G of prior years?

Duke: Yeah. Look, everybody calls 5G something different. To me, you know, when I think about it, we haven't really seen 5G come out yet. You've seen small cells, some 5G, but when you really want high 5G, dense in systems, it's really an antenna that's call it 500 feet apart, 550 feet apart, and so you... It's got... Is it... And, then you need line of sight, so in order to get that, you're going to have to put it somewhere on a distribution system that has clear line of sight, and if not the traditional wireless build that you've seen in the past where you put one big tower up, heavy fiber backhaul. It's denser fiber backhaul and very much more towers, wireless systems. They're smaller, and they're going to go in kind of a distribution network, but certainly very, very dense in these areas. And, you can do it on rooftops and call it New York. Certainly you can do it on rooftops, but as you move, let's call it Long Island, you can't do it. You can't deploy it that way, and all of it's backed up by edge data centers, data centers, and heavy fiber. And, I think the amount of fiber that's necessary is exponential than what you see today.

Nate: Yeah. So, moving on to financials and your outlook, I guess, starting with the outlook first. I'd love to hear just some... You mentioned it early on, but some of the labor trends that you're seeing right now. I mean, I'm curious what you're seeing from your perspective on just labor trends.

Duke: Yeah, I mean, I think in our business we have a really high level of craft skills, and you see the same thing. You see escalations in wages. Certainly our customers are seeing that as well, and we're able to pass those on for the most part. But, we've done a nice job with that of training labor. We have a very good loyal workforce. We pride ourselves on safety. Good things happen there, so I think in my mind, we're in front of all the escalations, wages increases. We're providing great jobs, and we focus on it. I mean, that's our focus is craft skill labor, so much of this we anticipated, and we built training facilities, schools, recruiting, recruiting from inner cities, looking at different ways to operate. And, so I think we're ahead of the game when it comes to that, but it's certainly something that everyone should take note because craft skill labor and those wages are moving up exponentially.

Nate: Yeah. And, what about your outlook on US infrastructure build out? I mean, what do you get most excited about? Is it the L&G story in the United States? Is it grid hardening, renewables, fiber?

Duke: If you believe that, call it about 20%, 30%, 50%, of all your cars will be electric vehicles, if you think that autonomous vehicles will also be part of that in the next ten years, which I can't see how it's not, it's pretty exciting times for an infrastructure builder to figure out, okay, how do we position ourselves to make sure that you can deploy all those... that great technology that's out there? And, when I look at what we're doing with 5G, with our fiber, with what we're doing on the electric grid and our customer base that's trying to enhance their systems, I believe we're all in a very, very nice spot, you know, for a long, long period of time here as technology advances and the world advance. And, we're just talking about, really, the lower 48, which really the world is advancing, and we're certainly at the forefront of that in my mind.

Nate: Yeah. Yeah. Really, so electric vehicles are what you're most excited about. That's a big opportunity for Quanta.

Duke: Well, I think the grid to enhance itself for that is an opportunity, and really the autonomous vehicles is something on 5G that people don't recognize the amount of density you need in order for that to happen. The technology's there today, and so I think the grid itself and the infrastructure itself is something that has got to come up and will to meet the needs of technology. When Google decided to employ fiber, I don't think they did it for the business model of fiber. They wanted to make sure that their technology could advance and really pressed the industry to do so, and you'll continue to see that.

Nate: Yeah. So, I'm not looking for guidance, but I am just curious what you think a reasonable range is for organic and inorganic long-term growth for Quanta?

Duke: I mean, you've seen the company really have a CAGR over time, you know, kind of high single to double digit growth over time. And, what we're willing to talk about is we call it about 75-85% of the business is considered somewhat base business to us on any given year, call it nine billion off twelve that we can grow kind of mid single digits due to the fact on the infrastructure builds, I think that's a three to five year, even longer. I mean, we can only see three to five years. Five years, now, we can really see it, and give some good growth numbers on that base business, and layer on these larger project, and we're starting to see more and more of those. The opportunities for us to grow are there. We've got to keep our margin profiles up and continue to work on getting scale out of our new business lines.

Nate: Yeah. And, that five year outlook, that's based off of your backlog that you are kind enough to... It's great whenever you see companies put out their backlog, because that does provide line of sight. But, is that five year sort of outlook set based off of what you have in your current backlog and based off of conversations that you're having right now with customers that you're fairly confident you're going to get that business?

Duke: Yeah, sure. I mean, most of the customers we've been on the systems a long period of time and are having multi=year kind of discussions with them on their infrastructure builds, and so we're fairly confident or highly confident in our ability to grow those programmatic spins within the utility space, for sure. And, I think as we see that move forward, we'll move forward with it. Our backlog continues to increase, so it'll have some points and times where you have larger contracts, you're renewing or things of that nature, and a lot of book to bill on any given quarter, but in general, we see good trends in our backlog going forward.

Nate: Could you talk about your mid to longer term ambitions for reducing the cyclicality and achieving higher margins?

Duke: Yeah, I mean, it's really utilization rates and things of that nature, and some of the offices that are in early stages. As growth slows you tend to get better margins from my standpoint, because you're not training as much. There's not as much up front, but in growth periods, for us, I think we've really tried to have a portfolio of double digits adjusted EBITDA as a portfolio of all of our companies. And, I think we're not there, and certainly that's an ambition of the company to get there, no matter what the top line is is to try to get the bottom line of an adjusted double EBITDA.

Nate: Yeah.

Duke: And, it's certainly doable over time.

Nate: How do you achieve that?

Duke: Look, we've had a few projects that we haven't done well at, and you know, we've got to get better at those. There are very few, but it doesn't take much to move that margin down. And, I think, in our mind, we've got to get better at not having the one off project every other year. It's not a huge number, but it's a number. And, I think we want to get a lot better at what we're doing on any given day, and I think as we get skill out of telecom and do some things on the oil and gas side that we've already been, as we acquire companies in the Northeast, things like that that give us scalability, and certain offices will allow expansion. It really, if you look at the electric side, we're kind of in those ranges. It's a more mature utility type service, and as we mature out the gas network and the telecom network, you'll see the same type of margin profiles, albeit a little lower there on the gas distribution just due to the way that it's deployed. But, in general, I think you'll start to see the company roll into more of a double digit. Certainly our goal is to get a double digit adjusted EBITDA.

Nate: Yeah. So, again, I know that you mentioned this during the 2Q call, but could you talk a little bit about the potential impacts of a recession on your business outlook?

Duke: Yeah, I mean, it's a fallacy to say recession won't impact everybody, but if you go back and you think about what people invest in in a recession, you know, utilities are certainly a great place for an investment. And, that's really a big piece of our business is utility-backed, and we've really worked hard to make sure that in a recession the impacts on Quanta is small. And, I think we've done a nice job of that, and if we see some recessionary period, you know, I don't think the impact on us is near what people may think.

Nate: Yeah. Yeah. So, if there's a recession, a regulated utility's still going to be spending money to take care of the grid, which is good for Quanta.

Duke: Yeah.

Nate: Yeah.

Duke: These are multi-year builds, and the things that we do are critical path. They're not want to, they're have to. So, in my mind, once you set out down a path then you can't just stop. And, so it would take a long time for that cycle to go the other way in a recession, not... You know, we can debate it. We don't see any signs of recession in our business today. Yeah, we just don't.

Nate: Yeah. Could you talk a little bit about the free cashflow profile of Quanta's business? So, you've... obviously, whenever you're working on really big projects and as a self-performing contractor, you're spending a lot of money on some of the materials and equipment that are either going in ground or above the ground. So, how would you encourage investors to think about your free cashflow profile and the working capital component?

Duke: Yeah. I mean, I think growth has a lot to do with our working capital. If we're growing the company which we have, you'll see outflows of capital, and so it's primarily around working capital. I mean, we've done stock buyback. We've done a lot of different things there as well, made some acquisitions and when we deploy our capital. But, in general, we self-perform a lot, so we're paying our employees weekly, and we're getting paid... I think our DSOs are in... we're very close to 80 days. And, so when we think about that, you just have a lag of free cashflow, and when the growth compounded on that there's an outflow. But, I also would say that if you see any kind of growth... we see the slow down in growth, you see the cash very much come in exponentially. So, it's... And, if you did per se have the 10% negative growth period, you would see the cash go the other direction and come in and flood in. So, it's actually a good thing and a bad time. If you get in a bad situation, you'll see lots of cash come our way but... In general, as we get a more stable base business in the utility side, I think you'll start to see the cash flows normalize and get more consistent.

Nate: Yeah, and what is a good sort of free cashflow conversion for Quanta for just on your average project? I mean, if you think about it in terms of either revenues or even... What is a good sort of range for free cashflow conversion?

Duke: Yeah, I mean, I think you can look at it from the adjusted EBITDA conversion around 40% of free cashflow to net income, which would be about around 80%.

Nate: Yeah. Thanks for that.

Duke: Yeah.

Nate: So, could you talk a little bit about shareholder returns. I mean, you guys have, in my opinion, a really impressive history of shareholder returns. You bought back roughly 35% of your stock since 2014 after selling the telecom services business. Could you talk about how you're thinking about it today? I know you made a big acquisition just a few days ago, and the thought process, from what I understand, was that you are going to buy back more shares this year. But, this opportunity came up and it was an opportunity you clearly couldn't pass up, so once the acquisitions are integrated, how should shareholders think about the shareholder returns story?

Duke: So, anything that we do internally, whether it's dividends, acquisitions, stock buy back, I mean, we always value it against our stock, so anything, if we were going to make an acquisition, we would say, that 100 million or 300 million, would it be better to buy the stock or the company? And, if we don't select... If we don't get the returns, we don't think we can get the return profiles, and then we hedge back to buying our stock. And, we've done that consistently. When we look at it, we look at it from our standpoint. Working capital is something that's necessary for us to grow the company, and it's something that's a form of use of capital that we'll continue to do.

Duke: We look at stock buy back, and we look at acquisitions. We don't want to get ourselves in a situation with our balance sheet that we don't have the ability to do it all. And, we've shown the... as we see value in our stock and it gets displaced, or whatever reason, the investor base doesn't think it's being the value that we think it is, then we're not as scared to lean into it. You know, I think over last five years, we probably bought 30-35% of the company back, and we're certainly willing to lean into it, and we'll continue to do so as we see places and time. And, we've said we'd stay agnostic from that standpoint, and whatever stock we issued, we would stay there. I mean, if we have 150 million shares outstanding, we want to stay there, whether we try to buy it back to get there. But, look, if we have unique opportunities and regional spaces with great companies, I mean, we want to take advantage of those and think it's certainly the proper use of capital.

Nate: What about dividend gross?

Duke: Yeah, I mean, I think you could see the company as we get more base business. I think that was part of the reasoning to pay a dividend and allow our shareholders to invest their money how they see fit, and so us to give back capital there is something that we'll continue to do. And, as we grow our base business, you would expect us to grow our dividend.

Nate: Okay. Some closing questions. Knowing what you know about your business, and assuming you weren't a shareholder, what do you think is the most important thing that you'd need to get comfortable with or learn about before you make an investment in Quanta?

Duke: I mean, if I'm looking at Quanta from the outside. I think when I see it, you see where we sit with our customers in the markets and the macro markets, and I think in order to do so, if you look at the utility, capital spins with either a telecom utility, electric utility, or gas utility, and look at their capex, opex plans over time, and see the growth in those plants. That's us. So, it should make an investor extremely comfortable that there's a backstop and a good macro story behind what we're saying. And, I think we've put a strategy out there three and a half years ago that we're ahead of, and that we'll continue to follow. And, we believe in the strategy and will continue to execute.

Nate: What do you think is the market's biggest misconception about your business or industry?

Duke: I just... I don't think they see the utility spends and where we sit in that market. I mean, if you look at others, the value a government spend at X, but they will not turn around and look at that utility spend of, let's call it... Our utility spend is seven and a half billion plus. The telecom layer's on top of that, industrial spend on top of that. You get to a really good nine billion dollars worth of base spend a year. If that was government, your evaluations on that is much higher, and I don't understand that, honestly.

Nate: Yeah.

Duke: So, that's what I think they miss quite a bit.

Nate: Yeah. What's the first tailwind that comes to mind for your business, and conversely, what's the first headwind that comes to mind?

Duke: Yeah, I mean, I think just where we sit from a labor standpoint allows us to move forward as the macro markets expand. The tailwind, you know, is certainly there. The headwind in my mind would be if there's some regulation that was out there that we couldn't see, and we don't see that at this point.

Nate: Yeah. I'm sure that you probably have a lot of your own net worth tied up in Quanta, but assuming you couldn't invest more of your money in your own business, is there another company in your industry that you'd consider investing in?

Duke: I mean, no, many of our customer stocks, I think they have a lot of growth there, and I've invested in them. You know, look, I like to invest in what I know and what I know well, and stay in those spaces, and certainly, our markets are good for the most part. But, the E&C space has been something that no one has been, you know, done well in for various reasons. I don't believe we're a part of that group, and me, if I'm investing, I would look at our customers more so than some of what we would consider... We don't really think we have a pure play competitor, so it's hard for me to gauge where they're at, and these businesses are all different. So, I know ours and like I said, I would bet on myself and do quite a bit.

Nate: Yeah. Yeah. No, I appreciate that. Have insiders been buying recently? Is that something that maybe you can talk about?

Duke: Sure. I mean, Derek and I bought last year when the stock was down. Both of us had bought, and obviously, about 70% of my compensation's stock based, performance based, and I like it that way, and I want it that way. I want to be with our investors, and I want to invest with our investors. And, you haven't seen me sell anything... I don't know. It's been '08 or something like that, and that was the original, 2001, when my dad and I sold the company. So, look, it's a long-term investment for me. My net worth is here, and certainly that's something I know and very confident delivering.

Nate: Yeah. Yeah. So, this is the last question that I sometimes ask my guests, and you don't have to answer the question if you don't have an answer for it, and a lot of my guests don't. So, really, it won't hurt my feelings, but what's the funnies question that you've ever heard during an investor meeting? About your business, that is.

Duke: Yeah.

Nate: It's a hard one, eh?

Duke: I heard a bunch, actually. Yeah. Just, I've heard a bunch, so I think for us it's, you know, you'll get investors that don't quite understand what we do, and I think they'll ask questions that they should know for that matter, and they'll just ask something that is off the wall per se. You know, not even about us, you know. We don't really own assets, so we'll get a lot of questions, just in general, around, you know, we don't own pipeline per se. I mean, we build them, and so we'll get tons of questions around, hey, what if the pipe explodes or something like that, you know?

Nate: Yeah.

Duke: I mean, it's just... You'll get stuff that just doesn't make sense at times, and look, we educate and move forward. And, I'll say this, we answer them all and, look, if people are trying to get to know the stock, we want to make sure we educate.

Nate: Yeah. Yeah. Absolutely. Well, hopefully this helps, and you know, Duke, I really do appreciate your time coming onto the podcast.

Duke: Oh, no. Thank you.

Nate: It's been a big pleasure talking to you once again, and so thank you very much for your time.

Duke: Yeah. No problem at all. Glad to do it. Thank you.