BLUEGRASS CAPITAL RESEARCH

Stellan Knopp | *Analyst*
Industrials | *Infrastructure & Construction Services*
Oct 31, 2025

Sterling Infrastructure, Inc.

From Concrete to Cloud: STRL's Buy Opportunity

Sterling Infrastructure (STRL) is well-positioned for sustained growth as it shifts from lower-margin transportation work to high-demand E-infrastructure, highlighted by its $505 million CEC Facility Services acquisition and $2.01B backlog. This transition has improved margins (23.3% vs. 19.3% prior) and doubled ROIC to 22.35%, fueled by AI data center demand and lower commodity costs. **With strategic exposure to high-growth markets and macro tailwinds from falling interest rates, we rate STRL a BUY with a one-year price target of $416.**

Thesis Point 1 STRL is strategically positioned for long-term growth as it transitions from low-margin transportation projects toward high-demand E-Infrastructure, highlighted by its $505M acquisition of CEC Facility Services. CEC is a leading electrical contractor focused on high-growth, mission-critical end markets whose customers are Texas Instruments, Intel, Samsung, and Meta. This acquisition is expected to immediately boost EPS and backlog strength. This strategic shift has already reshaped Sterling's revenue mix, reducing transportation solutions from 79% to 32% since 2016. STRL's backlog, as of June 30th, 2025, is valued at $2.01 billion.

Thesis Point 2 STRL has recently evolved and adapted to the robust market. Since 2016, the company has dramatically shifted its revenue mix, adapting to the new demand for AI database centers and thus reducing its exposure to commoditized highway work. Nine years ago, 79% of sales were transportation-oriented, compared to just 32% today. Sterling has prioritized its E-Infrastructure segment, now responsible for half of its revenues. The impact of this strategy is obvious in its industry-leading profitability and capital efficiency: STRL's ROIC of 22.35% (TTM) is more than double its comp, such as Primoris (9.04%) and far above Eaton (13.27%) and nVent (4.44%), while its 13.33% profit margin outpaces PRIM (3.48%), EMCOR (7.07%), and NVT (7.75%). These numbers show Sterling's execution, disciplined bidding, and backlog strength, which now stands at nearly 1.9x expected 2025 revenue, providing investors with confidence.

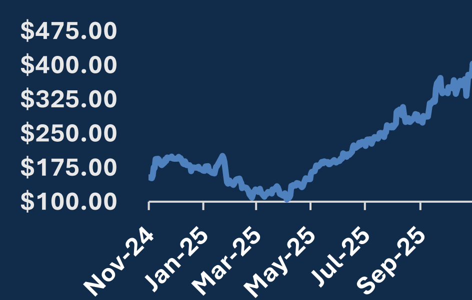
Thesis Point 3 STRL is also supported with tailwinds such as lower interest rates and lower commodity costs. First, the Federal Reserve's cutting of interest rates lowers the borrowing costs and gives corporations a reason to expand. Sterling is positioned to take a bigger slice of the booming data center market and to reinforce its role as a key player in the next generation of infrastructure development. Lastly, commodity costs have decreased over the past 3 months, improving profit margins to 23.3%, up from 19.3%.

Company Overview Founded in 1955, Sterling Infrastructure, Inc., is a U.S.-based infrastructure services company that provides solutions across e-infrastructure, transportation, and building segments. The company is headquartered in The Woodlands, Texas, and specializes in construction projects ranging from highways and bridges to mission-critical site development for data centers, semiconductor facilities, and manufacturing plants. Their revenue makeup as of Q2 of 2025 was 50.5% E-Infrastructure solutions, 32% Transportation solutions, and 17.5% Building solutions. Sterling has historically grown by horizontal integration, acquiring other infrastructure and construction firms that operate in similar markets. However, by buying CEC Facilities Group, they now control everything from earthwork to final delivery on datacenters (vertical integration).

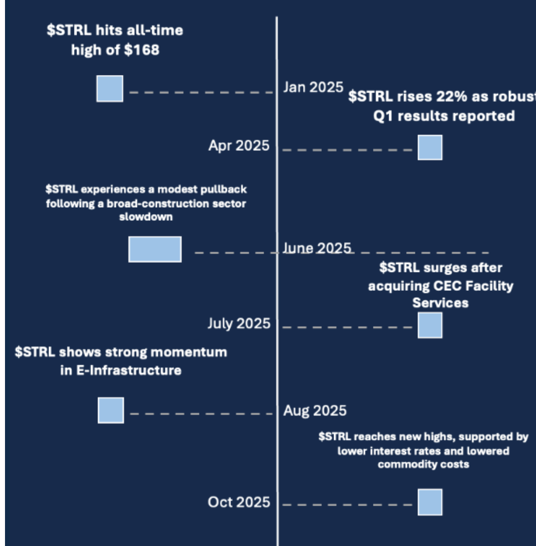
STERLING
INFRASTRUCTURE, INC.

TICKER:	$STRL
RATING:	BUY
PRICE:	$377.90
PRICE TARGET:	$416.00
MARKET CAP:	$10.08bn
52-W RANGE:	$96.34 - $409.33
P/E:	41.65x
IMPLIED UPSIDE:	16%

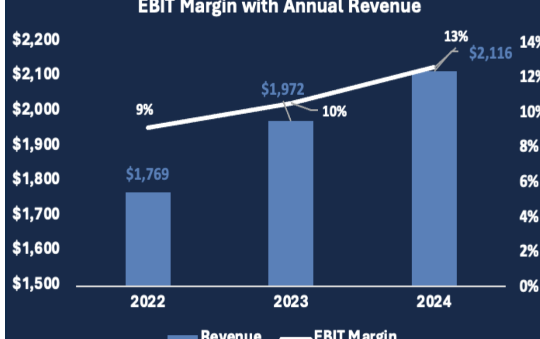
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk 1 Sterling's dependence on suppliers of materials and subcontractors could increase production costs and impair their ability to complete contracts on a timely basis or at all. The costs of raw materials Sterling needs to operate are subject to volatility and could thus affect the gross margin. However, as we've seen within the past year, the price of steel and crude oil has decreased, which contributes to higher margins. Continued fluctuations in commodity prices or supply chain disruptions could thin profitability.

Risk 2 E-Infrastructure Solutions currently accounts for $1.2 billion of its $2.01 billion backlog. If there are any indicators that this AI datacenter boom is cooling off because of either a broader economic slowdown or physical power grid limitations, there is a significant trend-driven risk. While the surge of AI is the primary catalyst, a halt in production would cause downside as E-Infrastructure accounts for nearly half of the company's revenue. Nevertheless, we are not worried, given that Sterling remains well-positioned to benefit from ongoing growth in high-tech construction and continued contracts from the U.S. government.

Catalysts Some factors that could trigger the stock to move toward our $416 price target are centered on the ongoing data center and advanced manufacturing construction boom, which has driven substantial growth in its E-Infrastructure segment ($1.2B in current backlog). We identify two factors that could drive further upside: first, favorable industry indicators, such as sustained data center project announcements, scaled power expansions, or accelerated permitting activity tied to AI and semiconductor infrastructure. Second would be company-specific confirmation in Sterling's quarterly results. If the upcoming 10-Q mentions continued backlog expansion and margin improvement, expect the stock to jump. Also, any mention of how Sterling is integrating its acquisition of CEC Facility Services could serve as a short-term catalyst.

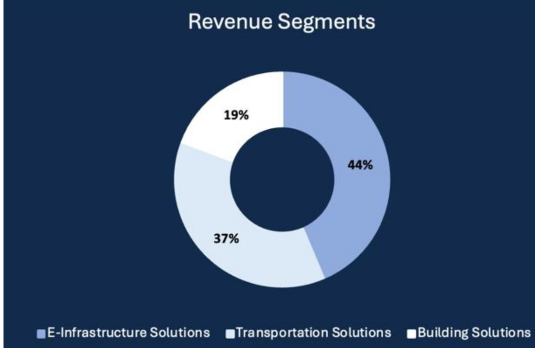
Valuation

DCF Analysis ($mm)

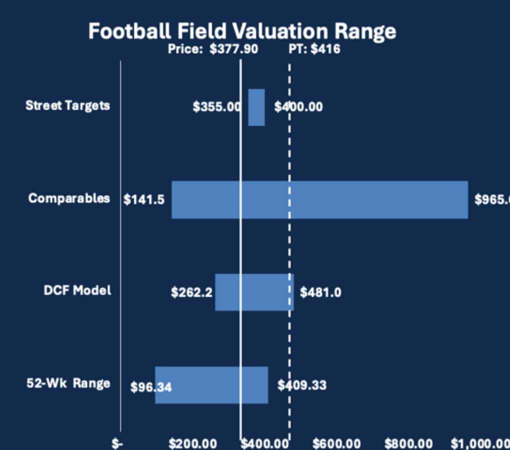
	FY2024 12/31/24	FY2025 12/31/2025	FY2026 12/31/26	FY2027 12/31/27	FY2028 12/30/28	FY2029 12/30/29	FY2030 12/31/30
Revenue	2,116	2,320	2,668	2,998	3,290	3,525	3,684
Revenue Growth	*7%*	*10%*	*15%*	*12%*	*10%*	*7%*	*5%*
E-Infrastructure Solutio	924	1,150	1,334	1,511	1,669	1,799	1,889
Transportation Solution	784	750	855	953	1,039	1,107	1,151
Building Solutions	408	420	479	534	582	620	645
EBIT	265	260	333	386	436	480	516
EBIT Margin	*13%*	*11%*	*13%*	*13%*	*13%*	*14%*	*14%*
Tax Expense	87	70	90	106	122	137	150
Effective Tax Rate	*33%*	*27%*	*27%*	*27%*	*28%*	*28%*	*29%*
NOPAT	177.68	190.00	243.77	280.13	314.12	343.54	366.21
D&A	68	70	81	87	91	93	92
Capex	(81)	100	115	125	133	138	140
Changes in NWC	(82)	80	93	52	0	(62)	(129)
UFCF	409	80	116	189	272	360	447
PV of FCF		79	110	164	217	264	301

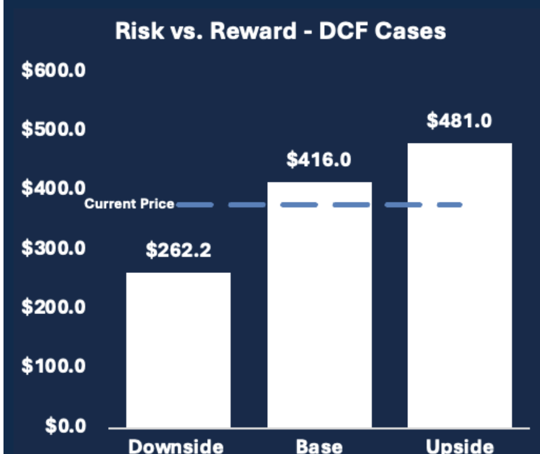
Our base case valuation assumes a 29x EV/EBITDA exit multiple, a revenue CAGR of 9.5% through FY2030, and EBIT margins remaining steady at 14%. These reflect STRL's strategic pivot to its E-Infrastructure segment, secular tailwinds, and strong backlog. Sterling's consistent execution, disciplined project selection, and growing exposure to E-Infrastructure projects justify a premium valuation. Please reference the next page for potential upside and downside DCF projections.

Conclusion Sterling Infrastructure represents a company that has successfully evolved from a standard contractor into a diversified infrastructure leader positioned at the intersection of AI-driven construction, onshoring, and data center expansion. Supported by a $2B backlog and consistent margin expansion, STRL has proven its ability to execute efficiently and select high-return projects. Its strength lies in the growing E-Infrastructure segment, which directly benefits from the ongoing need for AI, cloud, and advanced manufacturing facilities. As secular tailwinds accelerate, Sterling is positioned to deliver steady growth and long-term value. **We assign $STRL a BUY rating and a one-year price target of $416.**



Terminal Value	
EV/EBITDA Exit Multiple	29.0x
Terminal Value	$15,893
PV of Terminal Value	$10,705
PV of Projection Period	$1,030
PV of Terminal Value	$10,705
Implied TEV	$11,736
(-) Debt	-$356
(+) Cash	$699
Implied Equity Value	$12,791
Diluted Shares Outstanding	31
Implied Share Price	$416.58
Upside/Downside	10.2%





Bluegrass Capital Research

Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	2,116	2,320	2,621	2,903	3,150	10.5%
EBITDA	333	330	394	440	481	9.6%
EBIT	265	260	315	356	394	10.4%
NOPAT	178	190	230	258	284	12.4%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	15.8%	14.2%	15.0%	15.1%	15.3%	15.1%
EBIT Margin	12.5%	11.2%	12.0%	12.3%	12.5%	12.1%
Revenue Growth	7.3%	9.7%	13.0%	10.8%	8.5%	9.8%
EBIT Growth	28.2%	-1.9%	21.0%	13.1%	10.7%	14.2%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	28.4x	145.0x	110.9x	68.3x	47.7x	80.1x
EV/Sales	5.0x	4.5x	4.0x	3.6x	3.3x	4.1x
EV/EBITDA	31.6x	32.0x	26.8x	24.0x	21.9x	27.3x
FCF Yield	3.5%	0.7%	0.9%	1.5%	2.1%	1.7%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Primoris Services Corporation (NYSE:PRIM)	$7,411	$8,092	31.2x	$6,929	$476
MasTec, Inc. (NYSE:MTZ)	$16,078	$18,625	62.0x	$13,048	$952
Comfort Systems USA, Inc. (NYSE:FIX)	$29,196	$29,168	42.7x	$7,685	$1,076
Quanta Services, Inc. (NYSE:PWR)	$65,180	$69,789	67.9x	$26,053	$2,309
Sterling Infrastructure Inc.	$11,083	$10,756	39.6x	$2,138	$384

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth Rate LF
Primoris Services Corporation (NYSE:PRIM)	17.0x	11.3%	6.9%	5.6%	15.1%
MasTec, Inc. (NYSE:MTZ)	19.6x	12.6%	7.3%	3.9%	7.1%
Comfort Systems USA, Inc. (NYSE:FIX)	27.1x	22.5%	14.0%	12.2%	26.3%
Quanta Services, Inc. (NYSE:PWR)	30.2x	15.0%	8.9%	5.7%	18.3%
Sterling Infrastructure Inc.	28.0x	22.2%	18.0%	14.7%	3.3%
High	30.23x	22.5%	18.0%	14.7%	26.3%
75th Percentile	28.02x	22.2%	14.0%	12.2%	18.3%
Average	24.39x	16.7%	11.0%	8.4%	14.0%
Median	27.11x	15.0%	0.0%	5.7%	15.1%
25th Percentile	19.57x	12.6%	7.3%	5.6%	7.1%
Low	17.00x	11.3%	6.9%	3.9%	3.3%

Sterling Infrastructure Inc.		
Implied Enterprise Value (25th Percentile)	$	7,514
Implied Enterprise Value (Median)	**$**	**10,407**
Implied Enterprise Value (75th Percentile)	$	10,756
Implied Share Price (25th Percentile)	$	279.08
Implied Share Price (Median)	**$**	**373.30**
Implied Share Price (75th Percentile)	$	384.68

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.39
Risk Free Rate	4.39%
Cost of Equity	7.55%
Weighted Average Cost of Debt	6.45%
Tax Rate	26.90%
Cost of Debt	1.29%
Total Equity	$11,603
Total Debt	($1,056)
Equity/Total Capitalization	72.65%
Debt/Total Capitalization	27.35%
WACC	8.84%

Downside Case: Our downside case assumes a slowdown in economic activity, decreasing government/business expenditure, weakening demand for datacenters, and or increasing commodity costs. In this scenario, revenue growth would halt its steady increase and arrive at low single digits. This would cause the share price to fall to $262, or a -30.6% return.

Upside Case: Our upside case assumes a significantly stronger revenue growth at an 11.7% CAGR. This also implies that Sterling works through its backlog and is awarded more high-end bids, which brings us to a share price of $481 or a 27% upside.