FMI

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2025

UTILITY AND COMMUNICATIONS INFRASTRUCTURE

2025 OUTLOOK

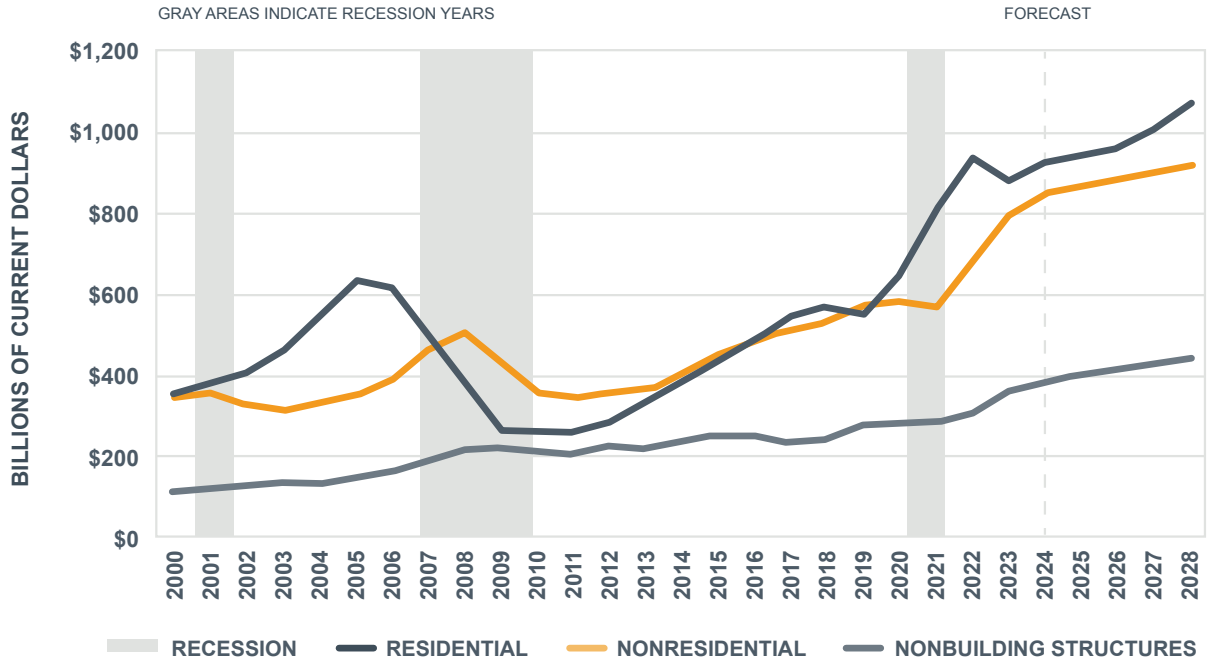
EXECUTIVE SUMMARY

The utility and communication construction industry begins 2025 with a mix of optimism and uncertainty. Federal funding, infrastructure modernization and increasing demand for power and communication networks continue to drive industry growth. However, the sector could face challenges such as policy shifts, supply chain disruptions and labor shortages.

According to FMI's construction outlook (Figure 1), total U.S. construction put-in-place is projected to experience steady growth, with the nonbuilding structures segment — which includes utility, power and communication infrastructure construction — continuing to rise above inflation levels. While overall construction growth remains modest, the utility and communications sectors are expected to outperform, driven by investment in grid resilience, broadband expansion and clean-water initiatives.

The market remains strong, with sustained growth in power transmission and distribution, water infrastructure and telecom deployment. Additionally, the industry is witnessing a surge in energy demand driven by artificial intelligence (AI), data centers and net-zero commitments. That said, pending federal policy adjustments, potential tariffs and immigration restrictions may impact labor availability and investment levels. This report provides a sector-by-sector analysis and market insights to help stakeholders navigate the year ahead.

FIGURE 1: ESTIMATED U.S. CONSTRUCTION PUT-IN-PLACE



SOURCE: FMI

POLICY IMPACTS
ON UTILITY AND COMMUNICATION CONSTRUCTION

TARIFFS AND SUPPLY CHAINS

While our forecast indicates a trajectory of growth and expansion, uncertainties arise when considering post-election policies. One such policy that could create short-term challenges is the tariff program, which could result in higher prices in 2025, not only for imported goods but for U.S. competitors. Most equipment, pipe and fiber products have origins in global supply chains. This vulnerability was felt acutely by most of the industry in 2020 and 2021, when the pandemic triggered a global supply chain crisis, leading to significant shortages and delays in equipment and pipe availability — challenges that could resurface if new tariffs further restrict imports and drive up costs.

As Elon Musk affirmed when discussing tariffs that affect U.S. manufacturing, this measure can strain consumers in the short-term but is intended to incentivize onshoring of important products. Companies like John Deere, Ford, Belden and Corning could all experience challenges in operating under new federal policies.

FEDERAL PROGRAMS AND SPENDING

The Department of Government Efficiency (DOGE) program could also influence utility and communication spending, especially if funding for programs that have been inefficient in their rollout, like the Broadband Equity, Access, and Deployment (BEAD) program, is curtailed or directed to other technologies. While this is unlikely given the industry's support of Trump and his loyalty to his base, there is some concern that sources of significant spending for the segment could be reduced. The full impact will likely remain unclear until DOGE makes its recommendations and the Trump administration clarifies whether it plans to implement them.

LABOR AND IMMIGRATION

Labor remains a challenge for the utility and communication industry, acting as a bottleneck to accelerating infrastructure improvements nationwide. Many companies have become adept at leveraging H-1B visa programs, working to ensure that labor has the required paperwork and sponsorship to be part of the workforce. Companies have embraced those who are willing to dig and have benefited from it. However, significant changes to immigration policy could have an impact on labor supply, potentially slowing utility contractors' ability to do the work.

Despite this uncertainty, more clarity in other areas of the economy has boosted morale among contractors nationwide. Certainty in tax policy has encouraged investment in people and equipment, while the excitement around energy independence has promoted investment and lowered the cost of fuel and oil-related products. Additionally, the easing of permitting and environmental requirements could create energy connectivity that lowers costs and increases energy security, with both power and gas transmission projects coming online. These developments reflect improvement in U.S. infrastructure going into 2025.

LEVERAGING

H-1B

VISA PROGRAMS ENSURES THAT LABOR HAS THE REQUIRED PAPERWORK AND SPONSORSHIP TO BE PART OF THE WORKFORCE.

OUTLOOK
SECTOR BY SECTOR

POWER TRANSMISSION AND DISTRIBUTION

The power transmission and distribution segment is poised for continued growth and investment in 2025, driven by two megatrends.

- **Net-zero commitments:** Many states continue to implement targets toward net zero, which will influence power and transmission distribution decisions for new spending. Achieving these goals across the U.S. requires trillions of dollars in investment and will likely span decades.

- **Artificial intelligence (AI) and data center growth:** There is growing power demand from data centers fueling artificial intelligence and quantum computing. According to FMI's latest research, data centers are projected to grow 19% in 2025. This demand is a surge unanticipated by investor-owned utilities and is fundamentally changing the generation and transmission environment in real time. The transmission, substation, subtransmission and distribution requirements necessary to power the technology is an unexpected boon to companies with the capability to provide creative solutions for new customers in the power generation and delivery space.

Additionally, increased spending on power distribution is expected, focused on system modernization and resiliency. This includes undergrounding, capacity additions and expansions, connectivity (fiber placement) for monitoring and communication, and grid redundancy programs. Spending has meaningfully outpaced inflation, and we expect the trend to continue throughout 2025.

DOMINION ENERGY'S DATA CENTER GROWTH CONTINUES TO ACCELERATE

By Reuters

Dominion Energy increased its five-year capital plan to $50.1 billion as data center power demand in Virginia accelerates. With an 88% surge in capacity since July and plans to connect 15 more data centers this year, Dominion continues to scale infrastructure to meet growing demand.

NATURAL GAS TRANSMISSION AND DISTRIBUTION

The outlook for the natural gas transmission segment is markedly different under the current administration. Some of the strongest years for gas transmission miles constructed occurred during President Trump's first term. The willingness of his team to foster energy-independent policies, build pipelines to improve the flow of oil and gas in the U.S., and reduce the challenges to construction all bode well for the gas transmission segment. These factors create a favorable environment in 2025, and we expect significant construction opportunities as the year progresses.

For gas distribution contractors, installation, repair and replacement will remain priorities for gas local distribution companies (LDCs). The low-hanging fruit in the gas distribution segment has been captured, and now the LDCs are turning to the dense urban environment improvements and challenging, congested areas that come with significant repair cost but less total mileage. Additionally, the Pipeline and Hazardous Materials Safety Administration's (PHMSA) ongoing assessment of consequence areas could meaningfully impact the segment. Any adjustments to population density requirements would change the total mileage of gas transmission and distribution pipes requiring replacement.

THE CURRENT ADMINISTRATION'S WILLINGNESS TO FOSTER ENERGY-INDEPENDENT POLICIES BODES WELL FOR THE GAS TRANSMISSION SEGMENT.

COMMUNICATION INFRASTRUCTURE

The communication construction segment hopes to see the BEAD program begin to roll out in 2025. Delays and administrative hurdles stemming from the Infrastructure Investment and Jobs Act (IIJA) have been a frustration for contractors in the segment. However, we expect that the engineering and administrative reviews will transition to construction.

Meanwhile, emerging technologies like Tesla's Starlink have entered the conversation. For those less familiar with the technology, Starlink is a low-orbit satellite constellation that transmits high-speed internet from thousands of satellites. While Starlink may be a great solution for sparsely populated geographies, the challenge it will begin to face is one of bandwidth and reliability, especially if deployed on a large scale comparable to what's being asked of current federal programs. Weather events also impact Starlink's reliability, presenting additional challenges to its being considered a replacement for existing wireless and fiber-based networks.

Creativity and action defined the contractors who found the most success in the communication segment over the past 12 months. Contractors who have worked hand-in-glove with power cooperatives or coordinated with local officials to install high-speed internet at low cost have had a profound impact on communities that don't get the same attention from Google, AT&T or Verizon. Capital expenditures from the major players slowed due to other priorities within these organizations and as peak demand areas for 5G reached a tipping point. Looking ahead, investor reports by Verizon and AT&T suggest an increase in capital expenditures on communication networks in 2025 that exceeds levels last seen in 2022.

2025

EXPENDITURES ON COMMUNICATION NETWORKS ARE SUGGESTED TO EXCEED 2022 LEVELS, ACCORDING TO INVESTOR REPORTS BY VERIZON AND AT&T.

MUNICIPAL WATER AND WASTEWATER

New construction in both the water and wastewater segments is expected to grow significantly in 2025. Spending on water supply is expected to increase 9% in 2025, fueled by continued federal funding, population shifts and industrial production. The United States Environmental Protection Agency (EPA)'s latest Clean Watershed Needs Survey estimates that the U.S. will need more than $630 billion over the next 20 years to ensure a safe drinking water supply, with most of the spending directed toward clean-water transmission and distribution networks.

Spending on sewage and waste disposal is projected to increase 6% in 2025 due to water treatment improvements and residential construction growth. Population migration trends have also created challenges for clean infrastructure reliability and necessitate pipeline improvement to prevent waste contamination in oceans, lakes and rivers.

In addition to the new construction discussed, pipeline repair and replacement remains a significant area of spending for the water segment. The Biden administration set forth an executive ruling requiring all lead-based pipes to be identified and replaced within a decade. The EPA has allocated $2.6 billion for drinking water upgrades and lead pipe replacements, funded by the IIJA and other loan-based federal programs. Assuming the program and its effort continues in the Trump administration, this represents a significant investment in improving clean-water infrastructure.

$2.6

BILLION IS ALLOCATED BY THE EPA FOR DRINKING WATER UPGRADES AND LEAD PIPE REPLACEMENTS.

UCCI PERFORMANCE

The Utility & Communications Construction Index (UCCI) presented below illustrates the performance of the sector's publicly traded stocks over the past year (Figure 2), three years (Figure 3) and five years (Figure 4). The UCCI has been adjusted to include companies with an increasing focus on underground infrastructure while excluding those that no longer participate or were declining in their influence. Specifically, we have included APi Group, which brings significant infrastructure capabilities alongside their fire prevention and security businesses. MDU has been replaced by Everus Construction Group, the MDU spin-off that focuses on power utility infrastructure. Sterling Infrastructure has also been added given its capabilities in site development, pipeline construction and utility relocation as part of its transportation solutions.

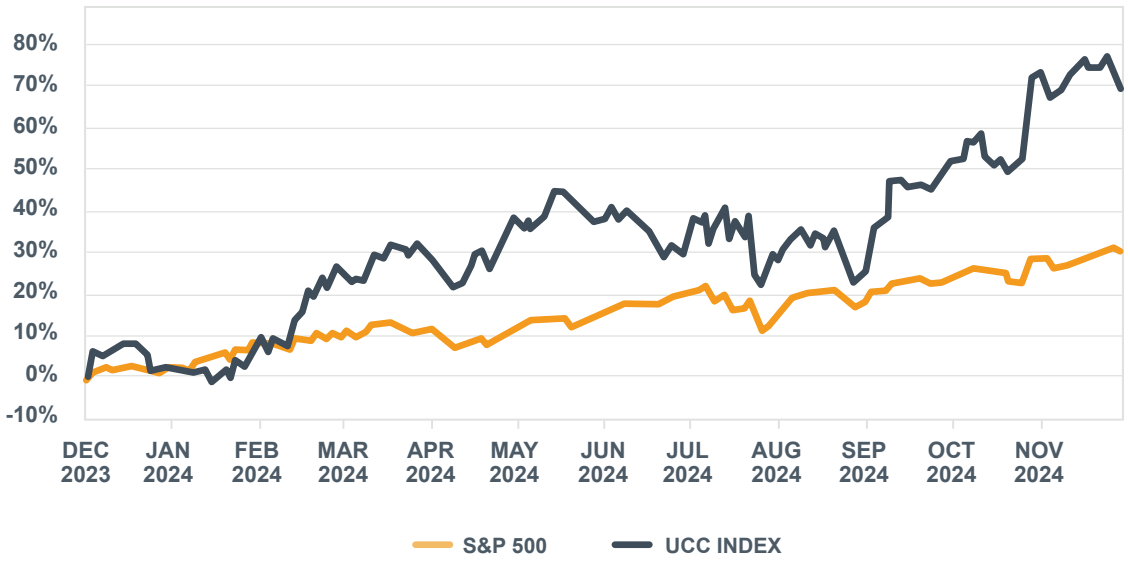
Over the past 12 months, the UCCI's performance is up 69.4%, driven by the expectation for sustained growth and increased spending on utility and communications infrastructure. This occurs at a time when the stock market has surpassed its all-time highs throughout the year. The UCCI outpaced the S&P 500, which increased by 30.9% over the same period. While market expectations for revenue and earnings growth will continue to rise, and despite the strong fundamental elements of the utility infrastructure market, maintaining growth at these rates will be challenging.

UCCI'S PERFORMANCE IS UP

69.4%

OVER THE PAST 12 MONTHS.

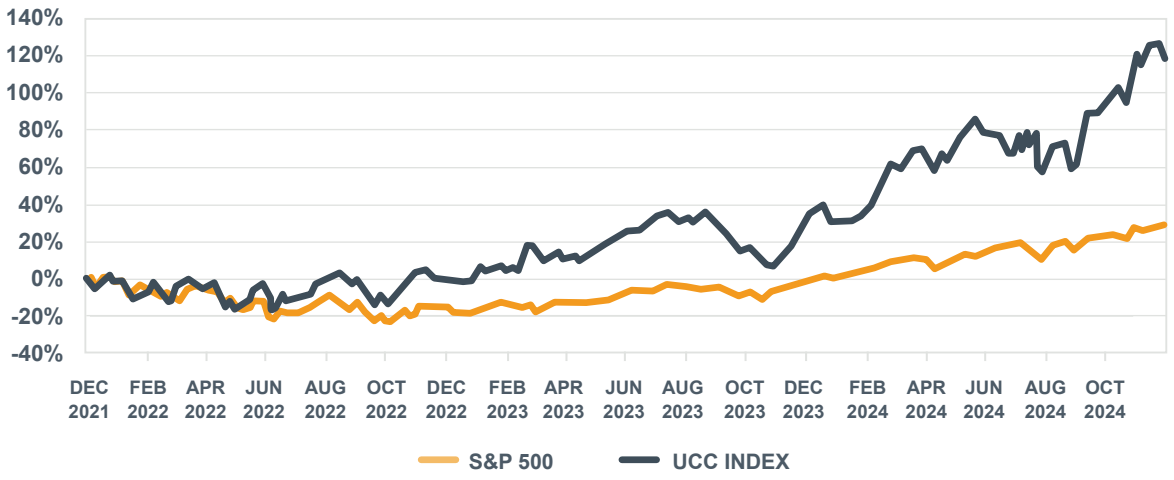
FIGURE 2: LAST 12 MONTHS (LTM) UCC INDEX AND S&P 500 PERFORMANCE



SOURCE: FMI RESEARCH, S&P CAPITAL IQ; AS OF DECEMBER 13, 2024

The 3-year UCCI closely aligns with the market's "rebound" as conditions eased following COVID-19, and the inflationary environment improved. The companies in the UCCI performed quite well relative to the S&P 500 due to federal legislation (for example the IIJA) and consistent increases in utility spending over the period. During this period, multiple expansion — the amount that profit is multiplied to reflect the value of a company — also increased as investors anticipated higher profitability, stronger cash flow and overall industry growth.

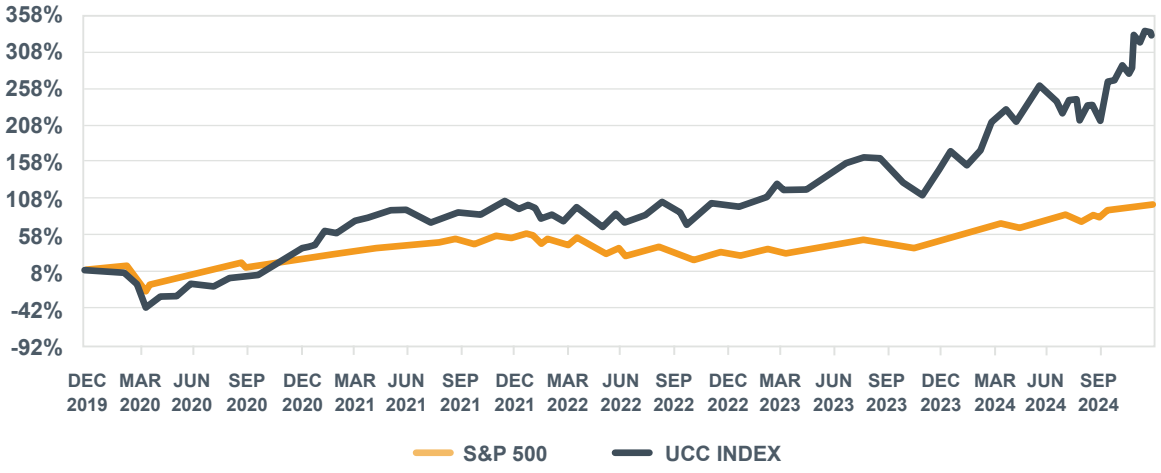
FIGURE 3: 3-YEAR UCC INDEX AND S&P 500 PERFORMANCE



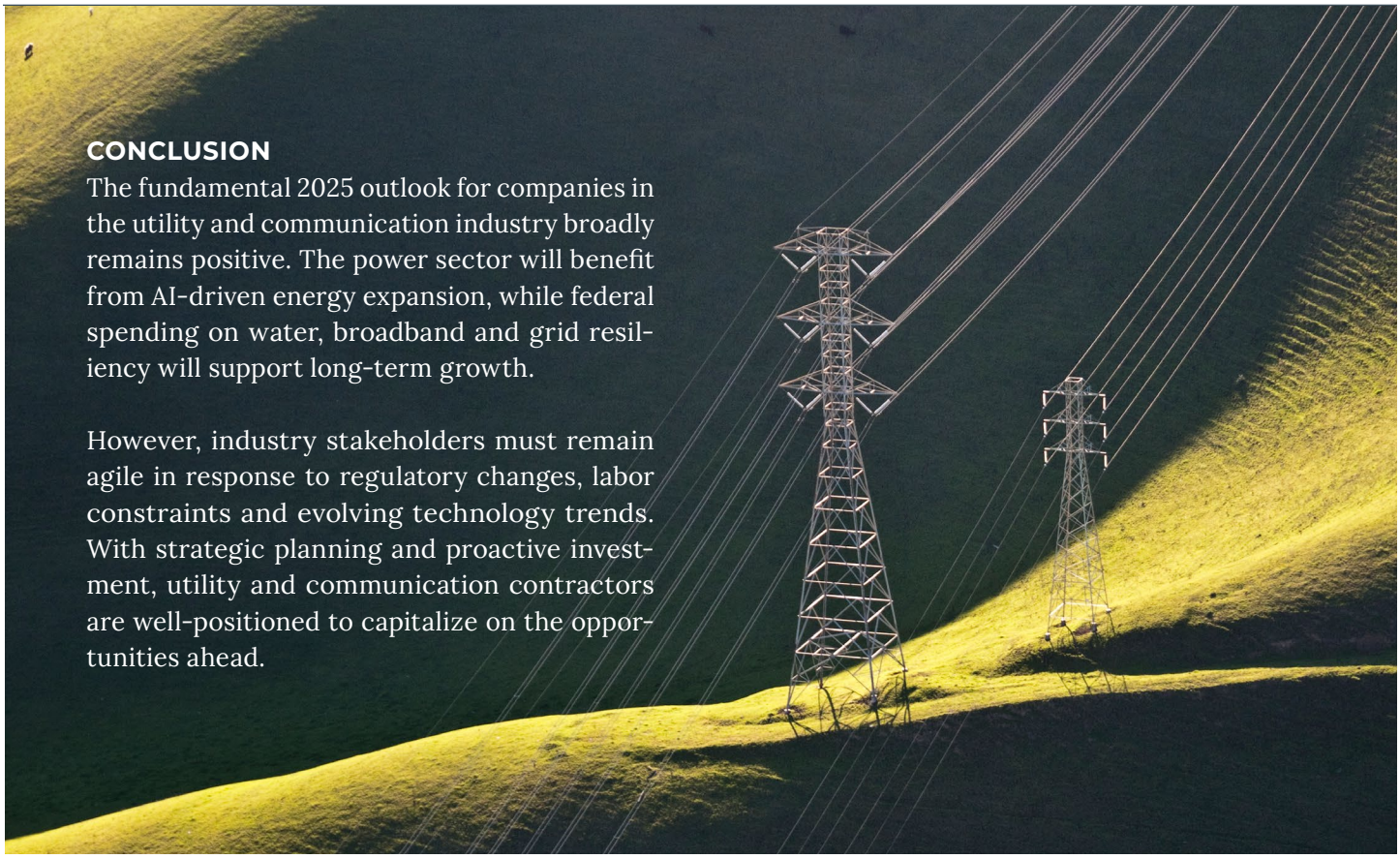
SOURCE: FMI RESEARCH, S&P CAPITAL IQ; AS OF DECEMBER 13, 2024

The 5-year UCCI, shown in Figure 4, illustrates extraordinary performance over the past five years. The relative growth of UCCI companies compared to the S&P 500 is impressive and uncommon. This growth reflects the expectations that investors have for UCCI companies and sets a very high bar for the industry as we continue into 2025.

FIGURE 4: 5-YEAR UCC INDEX AND S&P 500 PERFORMANCE



SOURCE: FMI RESEARCH, S&P CAPITAL IQ; AS OF DECEMBER 13, 2024



CONCLUSION

The fundamental 2025 outlook for companies in the utility and communication industry broadly remains positive. The power sector will benefit from AI-driven energy expansion, while federal spending on water, broadband and grid resiliency will support long-term growth.

However, industry stakeholders must remain agile in response to regulatory changes, labor constraints and evolving technology trends. With strategic planning and proactive investment, utility and communication contractors are well-positioned to capitalize on the opportunities ahead.

KEY TAKEAWAYS FOR 2025

- **Power sector growth:** Energy demand is projected to rise significantly, largely driven by AI and data center expansion, requiring substantial investment in grid capacity and transmission projects.
- **Federal funding and policy uncertainty:** The IIJA and BEAD program continue to fuel investment, but political shifts could lead to funding reallocations.
- **Labor and workforce challenges:** Immigration policies and labor shortages remain a constraint on project execution, requiring contractors to explore new workforce strategies.
- **Water infrastructure expansion:** Spending on clean water and wastewater projects will increase, driven by long-term EPA commitments to lead pipe replacement and ecosystem restoration.
- **Telecommunications infrastructure growth:** Despite capital expenditure slowdowns in 2024, Verizon and AT&T anticipate increased investments in fiber and 5G networks this year.
- **Natural gas infrastructure stability:** While new pipeline projects face regulatory hurdles, repair and replacement efforts remain steady due to aging infrastructure.

AUTHOR

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Dan's experience is diverse and includes guiding solutions for organizations' strategic and capital market needs, such as mergers and acquisitions, equity capital and business advisory services. His investment banking career has focused heavily on utility transmission and distribution businesses. As a result, he has strong relationships throughout the industry and a well-established understanding of the particular strengths and challenges facing many of its subsectors. His clients primarily include private and public companies as well as equity sponsors. He can be reached at dan.shumate@fmicorp.com.

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