

Edgar Filing: QUANTA SERVICES INC - Form DEFA14A

QUANTA SERVICES INC  
Form DEFA14A  
April 26, 2002

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant  |  
Filed by a party other than the Registrant  |

Check the appropriate box:

- Preliminary Proxy Statement  
 Confidential, for Use of the Commission Only (as Permitted by Rule  
14a-6(e)(2))  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

QUANTA SERVICES, INC.

-----  
(Name of Registrant as Specified In Its Charter)

-----  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

- |     |   |
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| (1) | Title of each class of securities to which transaction applies:<br>-----  |
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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act  
Rule 0-11(a)(2) and identify the filing for which the offsetting fee was  
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number, or the Form or Schedule and the date of its filing.

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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EXPLANATORY NOTE

Quanta Services, Inc., a Delaware corporation ("Quanta Services"), is filing the materials contained in this Schedule 14A with the Securities and Exchange Commission on April 26, 2002 in connection with the solicitation of proxies for electing the board of directors of Quanta Services at the 2002 annual meeting of Quanta Services' stockholders.

The following materials were presented by Quanta Services to Institutional Shareholder Services on April 26, 2002:

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[QUANTA SERVICES LOGO]

Forward Looking Statement Notice

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This presentation contains "forward looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include statements regarding the Company's expected future revenues, growth, margins, earnings per share, EBITDA, cash flow and the Company's expectations regarding industry trends.

Any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, including those identified in the company's reports filed under the Securities Exchange Act of 1934.

Who We Are

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Leading provider of end-to-end  
specialty contracting solutions

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>* Primary Industries</li><li>o Electric power</li><li>o Natural gas &amp; petroleum</li><li>o Telecommunications</li><li>o Broadband cable television</li></ul> | <ul style="list-style-type: none"><li>* Primary Network Infrastructure Services</li><li>o Design</li><li>o Installation</li><li>o Repair</li><li>o Maintenance</li><li>o Emergency response</li></ul> |
|---|---|

Milestones

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- \* Founded in August 1997
- \* Completed IPO in February 1998
  - o Acquired four founding companies concurrent with IPO
  - o Annual revenue run rate of \$150 million
- \* Raised over \$1 billion in debt and equity over the past four years
  - o ECT investment in October 1998
  - o Aquila initial investment in September 1999
- \* Formalized corporate infrastructure for national platform
  - o Strong executive and field management team with specialized expertise
  - o Broadened services offering
  - o Sharing of best practices throughout the organization
- \* Current revenue run rate of approximately \$2.0 billion
- \* Current enterprise value of approximately \$1.9 billion

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[QUANTA SERVICES LOGO]

[QUANTA SERVICES LOGO]

- o Situation Overview

Situation Overview

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- \* Quanta opposes Aquila control without appropriate value or protections for Quanta stockholders
- \* Board's interests are aligned with ALL stockholders
  - o Directors not designated by Aquila own over 5% of Quanta stock
- \* Committed to building value for stockholders: will consider all value-enhancing transactions
- \* Contrary to Aquila's assertions, Quanta has performed well relative to peers
- \* Quanta has excellent long-term prospects as the premier national contracting solutions franchise
  - o Ideal network construction outsourcing solution
  - o Customers must repair and expand aging transmission infrastructure over the medium to long term

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Aquila Relationship

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- \* Pre-September 2001:
  - o Aquila & Quanta enter "strategic alliance" with Aquila taking 20%

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stake in June 1999

- o Strategic relationship with Aquila does not meet expectations - \$12 million of \$2 billion in revenue in 2001
- o Pending Everest litigation has resulted from Aquila subsidiary contract disputes
- o Aquila buys 10% stake from Enron in April 2000
- o Aquila continued open market and private purchases bringing stake up to 35% by end of 2000

\* September - October 2001:

- o Aquila says wants consolidation
- o Aquila gradually increases stake to 38.5% and attempts to take "creeping control" of Quanta
- o Parties attempt to negotiate compromise giving Aquila consolidation, but protecting Quanta stockholders

\* November 2001:

- o Negotiations fail - Aquila threatens creeping takeover
- o Quanta announces amendments to the stockholder rights agreement; Aquila sues

\* December 2001:

- o Quanta Board appoints Special Committee consisting of seven Quanta directors unaffiliated with Aquila

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### Aquila Relationship

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\* February 2002:

- o Parties attempt to negotiate but Aquila walks away when accounting advice changes
- o Aquila launches proxy fight; nearly 50% of projected 2002 earnings growth assumes Quanta consolidation - Aquila then denies that consolidation is a goal when accounting is challenged
- o Quanta Board says will oppose Aquila efforts to take control without offering benefits or protections for other stockholders
- o Quanta Special Committee authorizes exploration of alternatives, adopts SECT, makes pill "chewable"
- o Aquila stake currently at 34% (Aquila challenging SECT)

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[QUANTA SERVICES LOGO]

[QUANTA SERVICES LOGO]

## II. Business Overview

### Quanta's Nationwide Reach

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[MAP OF THE UNITED STATES DEPICTING QUANTA'S  
PRINCIPAL OFFICES, HEADQUARTERS AND SERVICE TERRITORY]

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[QUANTA SERVICES LOGO]

### Advantages of Scale

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- \* Strategic alliances and preferred provider relationships
- \* Improved utilization of equipment and personnel
- \* Purchasing power on equipment
- \* Better access to capital and experienced personnel
- \* Comprehensive, profitable service offering
- \* Shared operating best practices throughout the nation

## Diversified Revenue Mix

[PIE CHART]

## Revenue by Customer Type - FY 2001

Electric & Gas	-	40%
Telecom	-	30%
Ancillary	-	16%
Cable TV	-	14%

## Revenue by Work Type - FY 2001

Outside Electric Utility & Gas	-	42%
Local & Area Loop	-	16%
Cable TV	-	14%
Other	-	10%
Long Haul	-	9%
C&I	-	6%
Wireless	-	3%

- \* Well positioned in each industry
- \* Reputation for quality, comprehensive services, safe operations
- \* Flexibility to respond to market shifts, customer needs
- \* Increasing opportunities

- \* Outside electric and gas experienced internal growth of 28%, compared to 2000
- \* Reflects evolving customer requirements
- \* Full solutions for converging industries

## Financial Highlights

\$ Millions

(except per share data)

	1999	2000	2001
Income Statement			
Sales	\$926	\$1,793	\$2,015
Gross Profit	214	414	414
EBITDA	158	308	293

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EBIT	123	251	214
Net Income	58	128	98
EPS	\$1.13	\$1.72	\$1.27
Balance Sheet			
Debt	\$206	\$500	\$508
Credit Stats			
EBIT/Interest	8.1x	9.8x	5.9x
EBITDA/Interest	10.4x	12.0x	8.1x
FFO/Total Debt	49%	35%	35%
Debt/Capitalization	21%	32%	30%

Source: Quanta Management

Note: Historical income statement items are before merger and special charges of \$7 million, \$29 million and \$21 million in 1999, 2000, and 2001, respectively.

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### 2002 Insight and Focus

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- \* Increase market share
- \* Strategic growth
  - o Internal
  - o Acquisitions
- \* Expand operating efficiencies
  - o Continue cross-unit synergy
  - o Decrease SG&A and other costs
- \* Maximize cash flow
- \* Pay down debt

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## Experienced Management

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More than 30 operating executives  
with over 25 years of experience

Name	Position	Years Experience
* Vince Foster	Chairman	24
* John Colson	CEO, Director	31
* James Haddox	CFO	30
* Peter Dameris	COO	16
* John Wilson	SVP, Director	26
* Gary Tucci	RVP, Director	28

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## Key Investment Highlights

- 
- \* Large, long-term market opportunities
  - \* Uniquely positioned as industry leader with true national footprint
  - \* Significant advantages of scale
  - \* Comprehensive capabilities, diverse customer base
  - \* Substantial free cash flow generation in times of slower growth
  - \* Proven acquisition and integration strategy

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\* Experienced management team with adaptable business model

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[QUANTA SERVICES LOGO]

III. Recent Performance

Repositioning the Business

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[PIE CHART]

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Revenue Mix 2000

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Telecommunications	42%
Electric Power	28%
Cable Television	16%
Ancillary	14%

[PIE CHART]

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Revenue Mix 2002E

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Electric Power	51%
Telecommunications	25%
Cable Television	12%
Ancillary	12%

[BAR GRAPH]

Cash Flow from Operations (1)  
\$ Millions

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1998	1999	2000	2001
\$8	\$46	\$45	\$210

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(1) As reported after changes in working capital.

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Comparative Forward P/E Multiples

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Quanta and MasTec -- 3 years

[Graph depicting Price to FY2 IBES Estimates FOR Quanta and MasTec daily from April 23, 1999 to April 23, 2002

- \* Aquila's actions are depressing the value of Quanta
- \* Traditionally, the market has attributed a higher multiple to Quanta than MasTec in recognition of Quanta's higher quality business mix
  - o 38% Premium over 3 years
  - o Quanta 39% utility
  - o MasTec 14% utility
- \* On the basis of IBES, the historical premium is not reflected today
  - o Quanta 2003E P/E: 11.1x
  - o MasTec 2003E P/E: 11.8x

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Indexed Stock Price Performance  
Quanta vs. MasTec vs. Dycom vs. Russell 2000

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Even though Aquila's actions have impacted Quanta, Quanta's stock price has outperformed its peers

[GRAPH]

Three Years

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Indexed Stock Prices  
Daily from 31-Dec-1998 to 31-Dec-2001  
[Initial stock prices set at 100%]

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[Stock Prices as of December 31, 2001:]  
Russell 2000 116%  
Quanta 105%  
Dycom 66%  
MasTec 50%

[GRAPH]

One Year

-----  
Indexed Stock Prices  
Daily from 31-Dec-2000 to 31-Dec-2001  
[Initial stock prices set at 100%]

-----  
[Stock Prices as of December 31, 2001:]  
Russell 2000 101%  
Quanta 48%  
Dycom 46%  
MasTec 35%

Source: FactSet

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Revenue Growth

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[BAR GRAPH]

\$ Millions, as reported

1997	1998	1999	2000	2001
\$75	\$200	\$600	\$1,793	\$2,015

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Revenue Comparison

[BAR GRAPH]

[\$ Millions, as reported

	1997	1998	1999	2000	2001
Quanta	\$75	\$319	\$926	\$1,793	\$2,015
Dycom	\$426	\$441	\$651	\$882	\$702
MasTec	\$659	\$1,049	\$1,055	\$1,330	\$1,223]

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EBITDA

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[GRAPH DEPICTING EBITDA  
(Dollar figures in millions):

1997	1998	1999(1)	2000(1)	2001(1)
\$25	\$45	\$159	\$310	\$292]

1 Before merger and special charges.

[QUANTA SERVICES LOGO]

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EBITDA COMPARISON

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[GRAPH DEPICTING EBITDA  
(Dollar figures in millions):

	1997	1998	1999	2000	2001
Quanta	\$25	\$45	\$159	\$310	\$293
Dycom	\$38	\$73	\$114	\$155	\$102
MasTec	\$81	\$105	\$149	\$188	\$138]

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CURRENT CAPITALIZATION

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\$ Millions	12/31/2001
Cash and cash equivalents	6.3
	=====
Debt	
Senior Credit Facility	109.3
Senior Secured Notes	210.0
Other Debt (1)	16.5
Convertible subordinated notes	172.5
	-----
Total Debt	508.3
Stockholders' equity	1,206.8
	-----
Total capitalization	1,715.2
	=====
Debt to capitalization	29.6%

1 Includes capital lease obligations and pre-acquisition debt secured by equipment.

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INDUSTRY LEADING PROFITABILITY IN 2001

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[GRAPH DEPICTING EBIT AND EBITDA MARGINS:]

	EBIT	EBITDA
Quanta	11% (1)	15% (1)
Arguss	5%	10%
Dycom	9%	14%
MasTec	6%	11%]

1 Before merger and special charges.

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EPS: QUANTA OUTPERFORMS PEERS

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[GRAPH DEPICTING EPS GROWTH:]

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	1999	2000	2001
Quanta	69%	42%	-11%
Arguss	92%	32%	-100%
Dycom	-9%	25%	-44%
MasTec	17%	29%	-30%]

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### IV. PERSPECTIVE ON AQUILA

#### AQUILA STOCKHOLDER ABUSE

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\* Aquila has a legacy of promoting their own interests at the expense of minority shareholders' rights

- o April 1999: Aquila squeezes out the minority in its controlled subsidiary, Aquila Gas Pipeline (AGP) at a low price and over the objections of a special committee of AGP directors

- o Sell to shareholders at \$15.00 and buy back at \$8.00 (1)

RESULT: 47% DISCOUNT

- o January 2002: Without bothering to install independent directors to approve the transaction, Aquila squeezes out minority stockholders in its highest growth subsidiary to take advantage of a weak market. Aquila was sued by minority investors

- o Sell to shareholders at \$24.00 and buy back at \$18.21 (24%)

RESULT: 24% DISCOUNT

1 Excludes dividends with a present value of \$0.32 as of the squeeze-out date.

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#### AQUILA'S EPS BUILDING BLOCKS

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AQUILA'S PREVIOUS GUIDANCE FOR 2002 RESULTS INCLUDED ROUGHLY \$0.12/SHARE OF ACCRETION FROM A POSSIBLE ACCOUNTING CONSOLIDATION OF AQUILA'S INVESTMENT IN QUANTA

[GRAPHIC DEPICTING EPS VS. YEARS:

2001	\$2.44
2002E	
Normal Commodity Cycle	\$(0.21)
Stock Offering	\$(0.19)
Quanta	\$0.12
International (including Midlands)	\$0.27
Lower Expense	\$0.07
Base Business Growth	\$0.18
	-----
Exchange Offer	= \$2.68
(minority interest offset)	\$0.00
Goodwill	\$0.15
	-----
2002E Total	\$2.83

Source: Aquila 2001 year-end earnings presentation

Note: Aquila recently lowered their guidance and took Quanta out of the 2002E EPS.

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### AQUILA'S LACKLUSTER PERFORMANCE

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- \* On April 19, 2002, Aquila announced that it expects its first quarter earnings to fall 54% from 2001 levels
- \* Aquila shares lost 19% of their value in 2001 and have further declined 9% through April 19, 2002
- \* Aquila recently was downgraded by Fitch rating service to BBB-, just above junk bond status
- \* Aquila is engaged in a dispute with Chubb over their agreement to collateralize \$570 million worth of surety bonds
- \* In spite of lackluster performance the Green brothers rewarded themselves handsomely
  - o Their average bonus increase from 2000-2001 was 40%

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### AQUILA'S "PROGRAM FOR ENHANCING VALUE"

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- \* Committed to exploring a sale of the company
  - o The existing Board of Directors is committed to evaluating all alternatives
  
  - o Aquila has been an obstruction to Quanta operations and the Board's efforts to explore a full range of strategic alternatives for the company
  
- \* Joint Self Tender/Aquila Tender offer for shares
  - o Aquila is trying to take control of Quanta using Quanta's own balance sheet and without offering a premium for Quanta's shares or any solid protections for minority shareholders
  
  - o They would limit the company's financial flexibility and capacity to complete continued strategic acquisitions
  
- \* Seek strategic investors to advance the strategy
  - o Again, an alternative the Board is currently pursuing, in spite of Aquila's obstruction
  
  - o Aquila is proposing the right to reserve flexibility for it to sell its control stake to such strategic investors without regard for the implications to other shareholders
  
  - o Not clear that Aquila's "independent directors: would have any say on squeeze-outs (ala AGP and "Old Aquila") or on sale by Aquila of its control block

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### AQUILA BOARD NOMINEES

Class Represented	Name	Age	Position
CONVERTIBLE PREFERRED	Terrence P. Dunn	52	President and Chief Executive, Officer Dunn Industries
	Robert K. Green	40	President and Chief Executive Officer, AQUILA
	Keith G. Stamm	41	President and Chief Operating Officer, Global Networks Group, AQUILA
COMMON	Richard C. Kreul	46	Vice President, Energy Delivery AQUILA
	Robert E. Marsh	42	Corporate Counsel Group LLP (KC-based law firm, working relationship with AQUILA)
	Edward K. Mills	42	President and Chief Executive

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		Officer Merchant Service Group AQUILA Merchant Services
R. Paul Perkins	59	Senior Vice President, Corporate Development, AQUILA
Bruce A. Reed	48	Senior Vice President and General Manager, AQUILA Merchant Services
William H. Starbuck	67	New York University, Stern School of Business

Source: Aquila Proxy 3-Apr-2002

Note: Aquila was previously allowed to elect the Convertible Preferred Directors. The Common Nominees are the additional directors that will run against Quanta's Common Nominees.

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### IV. QUANTA RESPONSE

#### RECENT QUANTA BOARD INITIATIVES

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- \* Approved creation of a Stock Employee Compensation Trust ("SECT") with 8 million shares of common stock in the trust to fund a significant portion of the Company's employee benefit obligations during the next 15 years
- \* Standardized employment agreements for certain corporate and operating unit employees
  - o Aimed at ensuring an "in place" management team
  - o Stabilize the Company's most vital assets
- \* Amended Quanta's stockholder rights plan to render the rights inapplicable to any offer for all Quanta shares that is accepted by 75% of the stockholders
  - o "Chewable pill" continues to protect Quanta investors against partial or creeping takeover efforts, but would not stand in the way of any serious equitable offer
- \* Authorized financial advisor, Goldman Sachs, to explore a range of strategic options, including acquisitions, stock repurchase, recapitalization and extraordinary transactions
  - o Any transaction would be structured so as to preclude Aquila from achieving control without offering value and protections to Quanta stockholders

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RECENT QUANTA BOARD INITIATIVES - SECT

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- \* Provides greater financial flexibility by reducing the Company's cash obligations to fund employee benefit programs
- \* Increases equity base by 9%; not counted for EPS until shares released; modest voting dilution
- \* Credit agencies give companies partial equity credit for Trust shares - "strong equity characteristics"
- \* Many companies have similar programs, including American Express, DuPont, Pfizer, Conrail, Tenneco and Corning
- \* Trust acquired common stock from Quanta primarily in exchange for a promissory note equal to the market value of the stock being sold
- \* Underscores management's belief in stock and commitment to stock-based compensation and incentives
- \* Shares in Trust voted confidentially by a broad based group (over 2000) of employees, not including employees who are directors

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SUMMARY

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- \* Quanta has a very solid business that has performed well relative to its peers in a very difficult market and we have excellent long term prospects
- \* Quanta's management team has established the premier franchise in the utility infrastructure services industry
- \* Aquila's hand picked nominees are pledged to Aquila's self serving agenda
- \* Aquila is trying to take control of Quanta without offering anything of economic value or any protections for minority shareholders
  - o Aquila's strategy has proved to be an obstruction of value enhancement opportunities
- \* Quanta is committed to enhancing shareholder value and protecting the rights of all shareholders

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APPENDIX

BOARD OF DIRECTORS

Class Represented	Name	Age	Position	Director Since
COMMON	James R. Ball	58	Director	1998
	John R. Colson	53	Chief Executive Officer, Director	1998
	Louis C. Golm	59	Director	2001
	Jerry J. Langdon	49	Director	2001
	Gary A. Tucci	44	Regional Vice President, President of Potelco, Inc. Director	1998
	John R. Wilson	51	Regional Vice President, President of PAR Electrical Contractors, Inc., Director	1998
COVERTIBLE	Terrence P. Dunn	53	Director	2001
PREFERRED (AQUILA)	Robert K. Green	39	Director	1999
LIMITED VOTE	Vincent D. Foster	44	Chairman of the Board of Directors	1997

Source: Quanta Proxy 24-May-2001

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BOARD OF DIRECTORS

Class Represented	Name	Age	2001 BOARD ATTENDANCE	COMMITTEE CHAIRS
COMMON	James R. Ball	58	100%	Compensation, Nomination Small Acquisition
	John R. Colson	53	100%	
	Louis C. Golm	59	88%	
	Jerry J. Langdon	49	89%	
	Gary A. Tucci	44	89%	
	John R. Wilson	51	89%	
CONVERTIBLE	Terrance P. Dunn	53	38%	Audit
PREFERRED (AQUILA)	Robert K. Green	39	56%	
	James G. Miller	52	43%	

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LIMITED VOTE      Vincent D. Foster      44      100%      Aquisition

Source: Quanta Mangement

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Board Background - Chairman

Director	Age	Title	Director Since
VINCENT D. FOSTER	44	CHAIRMAN OF THE BOARD OF DIRECTORS	1997

Mr. Foster has served as Senior Managing Director of Main Street Equity Ventures (and its predecessor firm), a venture capital firm, since 1997. From 1988 through 1997, Mr. Foster was a partner of Andersen Worldwide and Arthur Andersen LLP ("Arthur Andersen"). Mr. Foster is also a director of U. S. Concrete, Inc., Carriage Services, Inc., Fabrication Technologies Corp., and National Alarm Technologies. Mr. Foster holds a J.D. degree and is a Certified Public Accountant.

JOHN R. COLSON	53	CHIEF EXECUTIVE OFFICER	1998
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Mr. Colson has served as the Chief Executive Officer since December 1997. He joined PAR Electrical Contractors, Inc. ("PAR"), now a subsidiary of Quanta, in 1971 and served as its President from 1991 to December 1997. He is currently a member of the Council of Industrial Relations, governor of the Missouri Valley chapter of the National Electrical Contractors Association ("NECA"), a director of the Missouri Valley Line Apprenticeship Program and a director of U. S. Concrete, Inc., a publicly traded ready-mixed concrete manufacturer and distributor.

GARY A. TUCCI	44	REGIONAL VICE PRESIDENT, PRESIDENT OF POTELCO, INC.	1998
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Mr. Tucci has served as a Regional Vice President of Quanta since August 1998. Mr. Tucci joined Potelco, Inc., now a subsidiary of Quanta, in 1975 and has served as its President since 1988. He is a member of the Joint NECA/International Brotherhood of Electrical Workers Apprenticeship and Training Committee as well as the National Labor Relations Board.

JOHN R. WILSON	51	REGIONAL VICE PRESIDENT, PRESIDENT OF PAR ELECTRICAL CONTRACTORS, INC.	1998
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Mr. Wilson has served as a Regional Vice President of Quanta since April 1999 and as President of PAR since 1997. Mr. Wilson joined PAR in 1977 and served as an Executive Vice President from 1991 to 1997.

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MANAGEMENT AND INDEPENDENT DIRECTOR OWNERSHIP

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QUANTA MANAGEMENT AND INDEPENDENT DIRECTORS HAVE SIGNIFICANT OWNERSHIP

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Name	Shares of Limited Vote Common Stock Beneficially Owned		Shares of Common Stock Beneficially Owned	
	Number	Percent of Class	Number	Percent of
John R. Colson	-	-	2,223,19	3.9%
John A. Martell	-	-	671,726	1.2
John R. Wilson	-	-	653,012	1.1
Gary A. Tucci	-	-	528,159	*
Luke T. Spalj	-	-	300,482	*
Vincent D. Foster	207,262	11.8%	108,321	*
James H. Haddox	70,000	4.0	104,448	*
Elliott C. Robbins	-	-	65,108	*
Michael T. Willis	10,253	*	30,000	*
James R. Ball	29,625	1.7	37,500	*
Terrence P. Dunn	-	-		
Jerry J. Langdon	-	-		
Louis Golm	-	-		
All independent directors and executive officers as a Group (17 persons)	354,640	20.2	4,811,015	8.4

\* Percentage of shares does not exceed 1%.  
Source: Quanta Proxy 24-May-2001

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[QUANTA SERVICES LOGO]

THE POWER OF ONE

NYSE: QUANTA