Sterling Infrastructure, Inc. (NASDAQ: STRL)
Recommendation: Sell / Short

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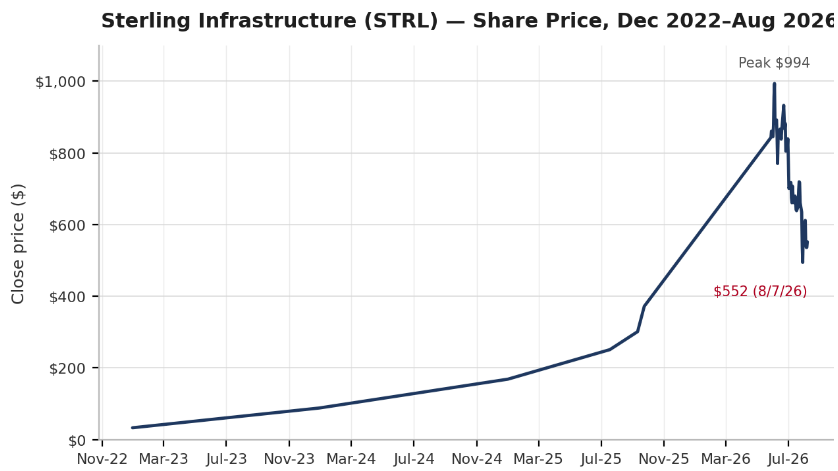
Sterling Infrastructure (STRL)	
$ in millions, except per share	
Share Price (as of 8/5/2026)	$536.03
Shares Out.	30.9
Market Cap	**$16,589**
Cash	$391
Debt	$291
TEV	**$16,489**
FY25A EBITDA	**$483**
EV / FY25A EBITDA	34.1x
PRICE TARGET (present-day fair value)	
Method 1 — DCF (intrinsic value)	
Perpetuity-growth method	$346.49
Exit-multiple method	$462.25
DCF value (average — ref. only)	$404.37
Method 2 — Comparable Companies	
NTM EBITDA (FY2026E)	$774
Target EV/EBITDA multiple	16.0x
Implied enterprise value	$12,392
Add: Net cash	$100
Implied equity value	$12,491
Shares outstanding	30.9
Comps value	$403.64
BLENDED PRICE TARGET	**$432.94**
Current price	$536.03
Upside / (Downside)	**(19.2%)**
RECOMMENDATION	**SELL**



Executive Summary

STRL is a high-quality infrastructure contractor whose operating performance has inflected sharply higher on data-center and mission-critical demand. The debate is not the business — it is the price. At $536.03 the stock trades at 34.1x FY2025A and roughly 21.3x FY2026E EBITDA, and, backing into the price, discounts a ~14.7x terminal EV/EBITDA multiple and ~6.6% perpetual growth — nearly three times the long-run rate a mature economy can sustain. A blended present-day target of $432.94, weighting a five-year DCF and a comparables multiple equally (exit-multiple DCF $462 / comps $404), implies roughly 19% downside and a SELL.

The scenario framework corroborates the asymmetry rather than rescuing it: a base case near $399 (25.5% downside), a bull of ~$624 (16.4% upside) that requires the market to keep paying a 22x scarcity multiple, and a bear of ~$217 (59.5% downside) — reward-to-risk of roughly 0.27:1. The catalyst is not a broken business but a terminal-multiple de-rate as the cycle matures, and the Q2 2026 margin print suggests it has begun. We expect the re-rate to play out over the next 12–24 months as growth laps the CEC acquisition and the margin path is tested.

Business Overview

Sterling Infrastructure operates through three segments: E-Infrastructure, Transportation Solutions and Building Solutions. E-Infrastructure is the key value driver and combines legacy site-development capabilities with electrical and mechanical services added through the CEC acquisition; it serves data centers, manufacturing, semiconductor, e-commerce and other mission-critical projects. Transportation focuses on heavy highway, alternative delivery, aviation, rail and drainage work, while Building Solutions provides concrete foundations, plumbing and surveying primarily to residential and commercial customers.

The mix shift toward higher-margin mission-critical work is real, and FY2026 will show it — but the headline growth is flattered by acquisitions. Consolidated revenue of roughly $4.08 billion is up 63.7%, driven substantially by a full year of CEC plus Stone Ridge (closed June 2026, ~$180–200 million of FY2026 revenue at mid-teens margins). Stripping acquisitions and the 2025 RHB deconsolidation, organic growth was ~32.5% in FY2025 and runs closer to ~30% in FY2026 before normalizing toward high-single / low-double digits later in the forecast. Backlog remains robust — $3.80 billion segment and $5.15 billion combined — but conversion and mix, not order intake, are now the swing factors.

Q2 2026, reported August 3, delivered revenue of $1,168.2 million (+90%) and adjusted EPS of $5.80 (vs. ~$5.18 consensus), yet the accompanying guidance raise implied only ~14% incremental adjusted EBITDA margin, and E-Infrastructure segment operating margin fell to 23.3% from 27.0%. The stock fell 14% on August 4 — a reaction consistent with the margin-compression concern at the core of this call, and the first market confirmation of it.

Investment Thesis

1. **The multiple already prices permanence.** At 34.1x trailing and ~21.3x forward EBITDA, the price only clears if Sterling's terminal multiple stays near ~14.7x and cash flows compound at ~6.6% forever — versus a 2.5% long-run rate and the 12.0x the base case already grants a still-growing business. The base case de-rates the terminal multiple toward mature diversified-E&C levels, between recent control deals (9.6x median) and EMCOR, the richest mature peer (16.3x). That single adjustment — not an operational miss — drives the downside.

2. **The margin-expansion narrative is already cracking.** Management and consensus frame a march toward 22–23% adjusted EBITDA margins. On a GAAP basis the model reaches only ~19.2% by 2031 — essentially flat — because CEC's lower-margin electrical/mechanical revenue dilutes a ~23% blended gross margin as it annualizes. Q2 2026 made the risk concrete: E-Infrastructure operating margin fell to 23.3% from 27.0%, and the raise implied only ~14% incremental adjusted EBITDA margin versus ~22% today. The ~200bps GAAP-to-guidance gap is deliberately not assumed away; it is what the market began to price on August 4.

3. **Headline growth is largely acquired; organic is decelerating.** The +63.7% FY2026 growth is flattered by a full year of CEC plus Stone Ridge. Organic growth (ex-RHB) was ~32.5% in FY2025 and ~30% in FY2026, normalizing toward high-single / low-double digits by 2028–29 as backlog converts and the base scales. A premium multiple underwritten on inorganic, decelerating-underneath growth is fragile: once the acquired revenue laps, the growth optics fade before earnings do — and the multiple compresses first.

4. **The free-cash-flow engine runs on negative working capital that normalizes.** Sterling self-funds growth through deeply negative net operating working capital (~-16% of revenue): data-center customer deposits and contract liabilities keep billings ahead of costs. That float — not margin — is the primary FCF driver. As revenue outgrows the deposit base, the tailwind fades; normalizing working capital toward the FY2025 incremental ratio lowers intrinsic value by roughly $23 per share and undercuts the free-cash-flow story the bull case leans on.

5. **Control values and customer concentration cap the downside support.** Recent mature-E&C control deals cleared at 9.0–10.8x EBITDA (9.6x median) — a fraction of STRL's public multiple — shown as a floor reference, not a target. Meanwhile the top four E-Infrastructure customers were 27% of segment revenue in 2025, so hyperscaler capex plans and award timing can move results in either direction. A de-rate does not require a broken business; it only requires investors to stop capitalizing today's growth at a scarcity premium.

Management Team and Board of Directors

Joe Cutillo (CEO) has led Sterling's multi-year transformation toward higher-margin, mission-critical infrastructure and comes across as hands-on and unusually direct on segment operations and pricing. Nick Grindstaff (CFO) has emphasized balance-sheet capacity and a capital-allocation hierarchy centered on acquisitions and leverage discipline. Noelle Dilts (VP, IR & Corporate Strategy) provides strategic color on geographic expansion and customer-driven growth. Management quality is candidly a risk to the short thesis: the team has executed the portfolio shift well to date, which is precisely why the call rests on valuation and margin math rather than on execution failure. The relevant watch items for a short are governance and incentive alignment, insider activity, and the aggressiveness of percentage-of-completion revenue recognition inherent to a fixed-price contractor — none of which currently show a red flag, but all of which bear monitoring.

Executive	Role	Investment Relevance
Joe Cutillo	CEO	Architect of the portfolio shift toward mission-critical, higher-margin infrastructure.
Nick Grindstaff	CFO	Capital allocation, acquisition capacity, buybacks and leverage discipline.
Noelle Dilts	VP, IR & Strategy	Strategic positioning, customer-led expansion and investor communication.

Recent precedent transactions frame the mature-E&C control values that sit well below STRL's public multiple:

Date	Target (Seller)	Acquirer	Terms	EV/EBITDA
Sep-2025	CEC Facilities Group	Sterling Infrastructure	$505M	9.6x
Jul-2025	Dynamic Systems (DSI)	Quanta Services	$1.35B	9.0x
Feb-2025	Miller Electric	EMCOR Group	$865M	10.8x
			Average	**9.8x**

Valuation

The present-day target weights two methods equally — a five-year DCF and a comparable-companies multiple — both expressed in EV/EBITDA terms and both embedding a deliberate de-rate from today's scarcity premium. The DCF is the primary intrinsic anchor; comps are the relative cross-check.

Five-year DCF · $ in millions

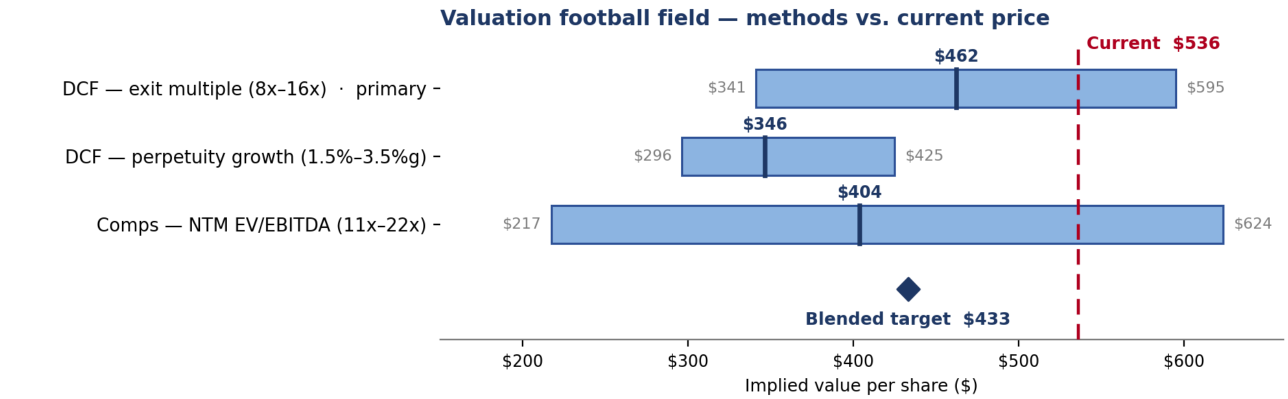
WACC (CAPM; net cash ≈ cost of equity) *Rf 4.65% + β 1.40 × ERP 5.0%*	11.5%
Terminal growth (perpetuity)	2.5%
Exit EV/EBITDA — terminal (primary)	**12.0**
EXIT-MULTIPLE METHOD (primary)	
PV of explicit FCF (2026–31E)	$4,17
Terminal value (12.0x × 2031E EBITDA)	$18,27
PV of terminal value	$10,02
Enterprise value	**$14,20**
Add: net cash	$10
Equity value ÷ 30.9mm shares	$14,30
Value / share — exit multiple	**$462.2**
CROSS-CHECKS	
Perpetuity-growth method (2.5% g)	*$346.4*
DCF average (reference only)	*$404.3*
Terminal value as % of EV	*71%*

Reverse DCF — what today's price assumes.

Holding the 11.5% discount rate, $536.03 can only be justified if Sterling's terminal EV/EBITDA multiple is ~14.7x and its cash flows grow at ~6.6% in perpetuity — nearly three times the 2.5% long-run rate a mature economy sustains, and above the 12.0x the base case already grants a still-growing business.

Put differently, the market is capitalizing the current data-center build-out as if it never matures. The base case does not assume the cycle ends; it assumes the terminal multiple normalizes toward mature diversified-E&C levels — between recent control deals (9.6x) and EMCOR (16.3x). Closing that gap, not any operational miss, is the source of the downside.

The exit multiple is the single largest swing factor and is sensitized 8x–16x below.



Every method's central estimate sits below the current $536.03, and the current price brushes the top of even the exit-multiple range — which needs both a 16x terminal multiple and a lower discount rate to reach. The exit multiple is the largest swing factor; the grid below sensitizes it against WACC.

Exit-multiple DCF — implied value per share ($):

WACC \ Exit x	8.0x	10.0x	12.0x	14.0x	16.0x
10.5%	$368	$425	$482	$538	$595
11.0%	$361	$416	$472	$527	$583
11.5%	$354	$408	$462	$516	$570
12.0%	$348	$400	$453	$506	$558
12.5%	$341	$393	$444	$495	$547

Reading the grid: *today's $536 is reached only in the 16x column paired with a below-base discount rate — i.e., only if the market keeps paying an EMCOR-rich terminal multiple. The base case (11.5% / 12.0x, shaded) is $462; the precedent-deal corner (8x) sits in the $340s.*

The anchors used to select the 16.0x NTM comps multiple and the 12.0x DCF terminal:

Reference	Type	EV/EBITDA	Interpretation	Use in Model
STRL — NTM	Current	21.3x	Where the stock trades today	Starting point
Peer Median	Public comps	29.6x	Cycle-inflated sector premium	Cross-check only
Market-implied	Reverse DCF	14.7x	Terminal multiple priced in today	The gap to close
EMCOR	Mature peer	16.3x	Richest mature-E&C anchor	Upper bound
Precedent Avg.	Control deals	~9.8x	Mature-E&C control values	Floor reference
Comps target (NTM)	**Selected**	**16.0x**	**De-rate to EMCOR level**	**Comps method**
DCF terminal (exit)	**Selected**	**12.0x**	**Between control deals and EMCOR**	**DCF method**

Comparable companies (single-source snapshot as of 8/5/2026):

				USD					EV / EBITDA		P/E	EBIT	
		Last	Market		%Chg	%Chg		Sales	T12M	Crnt Yr	NY	Margin	Dvd
Ticker	Name	Price	Cap	EV	1Yr	YTD	Sales	GR				T12M	Yield
FIX	Comfort Systems USA	$1,520.00	$60.8	$59.2	146%	51%	$11.2	29%	29.6x	32.7x	25.3x	16%	0.0%
EME	EMCOR Group	$819.88	$35.2	$34.8	25%	28%	$18.6	17%	16.3x	23.7x	23.8x	10%	0.0%
PWR	Quanta Services	$689.00	$100.3	$106.4	62%	57%	$32.9	20%	34.7x	38.2x	40.6x	6%	0.0%
	Comp Group Average	*$1,009.63*	*$65.4*	*$66.8*	*78%*	*46%*	*$20.9*	*22%*	*26.9x*	*31.5x*	*29.9x*	*11%*	*0.0%*
	Comp Group Median	*$819.88*	*$60.8*	*$59.2*	*62%*	*51%*	*$18.6*	*20%*	*29.6x*	*32.7x*	*25.3x*	*10%*	*0.0%*
STRL	**Sterling Infrastructure**	**$536.03**	**$16.6**	**$16.5**	**127%**	**68%**	**$2.9**	**18%**	**34.1x**	**30.2x**	**21.2x**	**17%**	**0.0%**

The honest objection — and why the anchor still holds. On forward metrics STRL does not screen expensive against its immediate peers: 30.2x FY2026E EV/EBITDA versus a 31.5x peer average, and a 21.2x forward P/E below every name in the set. But Comfort Systems, EMCOR and Quanta all carry the same data-center capex-cycle premium being valued here, so relative cheapness inside a re-rated group is not a valuation floor. The analysis therefore anchors to mature diversified-E&C economics (EMCOR at 16.3x, control deals at ~9.6x) and to what the market is implicitly discounting (a ~14.7x terminal multiple), rather than to a peer median inflated by the same cycle. The comp set is also only three names and a single-source snapshot; it should be re-pulled same-source, same-date before submission.

Base / bull / bear scenarios (FY2026E, NTM-multiple method):

FY2026E	Base	Bull	Bear
Revenue	**$4,076**	**$4,183**	**$3,785**
Gross profit	$938	$1,025	$795
G&A expense	*($253)*	*($243)*	*($257)*
Intangible amortization	*($36)*	*($36)*	*($36)*
Operating income	**$649**	**$746**	**$501**
Operating margin	*15.9%*	*17.8%*	*13.2%*
D&A	*$126*	*$128*	*$119*
EBITDA	**$774**	**$874**	**$621**
Pre-tax income	$665	$762	$517
Income tax	*($163)*	*($187)*	*($127)*
Net income incl. NCI	$502	$575	$391
Less: NCI	*($15)*	*($15)*	*($15)*
Net income to common	**$487**	**$560**	**$376**
Diluted shares (mm)	31.3	31.0	31.9
GAAP diluted EPS	**$15.55**	**$18.08**	**$11.77**
Adj. diluted EPS (memo)	*$17.41*	*$19.97*	*$13.52*
VALUATION — NTM EV/EBITDA method			
NTM EV/EBITDA multiple	16.0x	22.0x	11.0x
Implied enterprise value	$12,392	$19,235	$6,828
Add: net cash	$100	$100	$100
Implied equity value	$12,491	$19,334	$6,928
Implied value / share	**$399.08**	**$623.69**	**$217.17**
Current price	$536.03	$536.03	$536.03
Upside / (downside)	**(25.5%)**	**16.4%**	**(59.5%)**
RECOMMENDATION	**SELL**	**OVERWT**	**SELL**

The **base case** assumes FY2026 revenue of $4.08bn and adjusted EBITDA of $774mm, applying a 16.0x NTM EV/EBITDA multiple de-rated to EMCOR's mature-peer level. This implies roughly $399 per share, or 25.5% downside from the current $536.03.

The **bear case** assumes weaker revenue, gross-margin compression toward 21% as CEC's electrical mix dilutes the blend, a 13.2% operating margin and an 11.0x multiple, implying approximately $217 per share, or 59.5% downside.

The **bull case** assumes stronger growth and margin execution with the market still paying a 22.0x scarcity multiple, implying approximately $624 per share, or 16.4% upside.

The skew is unfavorable: reward-to-risk is roughly 0.27:1 — you risk about 60% to make about 16% — because the market already capitalizes much of the upside scenario in today's price.

Note: *these scenario prices apply only the NTM-multiple (comps) leg, so they sit below the $432.94 blended target — which also carries the higher exit-multiple DCF ($462) — by design. The scenarios are the more conservative cross-check on the same call.*

What has to be true for the SELL to be wrong	Implied value
1. The terminal multiple holds near today's ~15x rather than de-rating toward mature-E&C levels.	~$570
2. The data-center cycle persists — growth stays above the 8% terminal rate past 2029.	—
3. The margin thesis delivers — adjusted EBITDA margin reaches the guided 22–23% (model holds ~19–20%).	—
4. Negative working capital keeps funding growth at ~16% of incremental revenue.	$439.63

Risks (to the Short Thesis)

1. Data-center and AI infrastructure spending remains stronger for longer, allowing Sterling to sustain exceptional organic growth and a premium valuation multiple.
2. CEC cross-selling succeeds faster than expected and the integrated site-development plus electrical offering creates a durable competitive advantage that supports higher margins.
3. Stone Ridge and future acquisitions expand Sterling's geographic footprint and earnings base without meaningful integration issues or dilution.
4. Backlog and unsigned awards convert faster than modeled, driving upside to revenue and EBITDA estimates.
5. The market continues valuing STRL as a scarce AI/data-center infrastructure compounder rather than a mature engineering and construction company. The bull case uses a 22.0x NTM EBITDA multiple and implies roughly $624 per share.

Financials

$ in millions, except per share and per-share ratios

	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E
Revenue	**$1,972**	**$2,116**	**$2,490**	**$4,076**	**$5,519**	**$6,182**	**$6,800**	**$7,344**	**$7,931**

	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E
Growth	*—*	*7.3%*	*17.7%*	*63.7%*	*35.4%*	*12.0%*	*10.0%*	*8.0%*	*8.0%*
Gross Profit	**$338**	**$426**	**$572**	**$938**	**$1,269**	**$1,422**	**$1,564**	**$1,689**	**$1,824**
Margin	*17.1%*	*20.1%*	*23.0%*	*23.0%*	*23.0%*	*23.0%*	*23.0%*	*23.0%*	*23.0%*
SG&A	$99	$118	$155	$253	$337	$371	$408	$441	$476
Margin	*5.0%*	*5.6%*	*6.2%*	*6.2%*	*6.1%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
EBITDA	**$263**	**$333**	**$483**	**$774**	**$1,054**	**$1,187**	**$1,306**	**$1,410**	**$1,523**
Margin	*13.3%*	*15.7%*	*19.4%*	*19.0%*	*19.1%*	*19.2%*	*19.2%*	*19.2%*	*19.2%*
D&A	$57	$68	$77	$126	$155	$166	$176	$184	$192
Margin	*2.9%*	*3.2%*	*3.1%*	*3.1%*	*2.8%*	*2.7%*	*2.6%*	*2.5%*	*2.4%*
Operating Income	**$206**	**$265**	**$406**	**$649**	**$899**	**$1,021**	**$1,130**	**$1,226**	**$1,330**
Margin	*10.4%*	*12.5%*	*16.3%*	*15.9%*	*16.3%*	*16.5%*	*16.6%*	*16.7%*	*16.8%*
Interest Expense	$29	$25	$20	$19	$19	$19	$19	$19	$19
EBT	$191	$358	$408	$665	$952	$1,117	$1,268	$1,411	$1,565
Tax	$48	$87	$99	$163	$233	$274	$311	$346	$383
Net Income	**$139**	**$257**	**$290**	**$487**	**$704**	**$829**	**$943**	**$1,050**	**$1,167**
Sh. Out. (mm)	31.2	31.1	30.9	31.3	31.5	31.6	31.8	31.9	32.1
EPS	**$4.44**	**$8.27**	**$9.38**	**$15.55**	**$22.38**	**$26.22**	**$29.69**	**$32.92**	**$36.40**
FCF	$414	$416	$363	$865	$995	$986	$1,089	$1,181	$1,301
Net Leverage	-0.5x	-1.0x	-0.2x	-1.2x	-1.8x	-2.4x	-3.0x	-3.6x	-4.2x

The model steps up FY2026 revenue and EBITDA on a full year of CEC and Stone Ridge, then normalizes growth as the business scales. Net leverage turns increasingly negative because the model funds no buybacks, dividends or future acquisitions — all free cash simply accumulates as net cash. That is a modeling convention, not a capital-return forecast; and because terminal value is anchored to an exit EBITDA multiple rather than perpetuity free cash flow, the growing cash balance does not inflate the DCF. The central issue remains valuation: the thesis depends on multiple normalization, not balance-sheet stress or an operating collapse.