Distinct Infrastructure Group Inc.

DUG-TSXV
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Infrastructure & Construction | Construction

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Company Report - Initiation of Coverage

Outperform 2
C$1.90 target price

Current Price (Apr-09-18)	C$1.46
Total Return to Target	30%
52-Week Range	C$1.80 - C$1.14
Suitability	High Risk/Growth

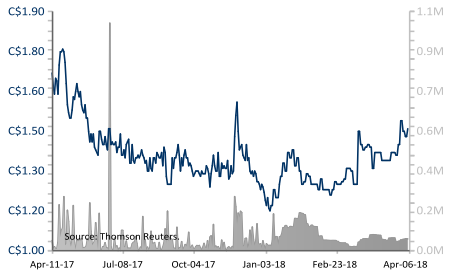
Market Data

Market Capitalization (mln)	C$67
Current Net Debt (mln)	C$47
Enterprise Value (mln)	C$114
Shares Outstanding (mln, f.d.)	46.1
10 Day Avg Daily Volume (000s)	38
Dividend/Yield	C$0.00/0.0%

Key Financial Metrics

	2016A	2017E	2018E	2019E
EV/EBITDA	13.9x	12.0x	7.6x	6.6x
EBITDA Margins	13.7%	12.4%	14.0%	14.7%
P/E	NA	16.0x	9.8x	8.0x
ROIC (%)	6.7%	7.2%	12.3%	13.2%
Days Sales Outstanding (DSOs)	145	130	115	110
WIP Days Outstanding	128	125	110	110
Net Debt/Equity				1.6x
Net Debt/EBITDA				3.7x
BVPS				C$0.84

Company Description
Distinct Infrastructure Group is a utility and telecom infrastructure contractor with capabilities in design, engineering, construction, service and maintenance, and materials management. It services telecom and utility companies throughout Canada.



DIG in for a Breath of Fresh Air

Recommendation

We are launching coverage of Distinct Infrastructure Group (DIG), a specialty contractor that checks several boxes small-cap investors look for in a stock—a leading position in a fragmented market, highly profitable recurring work and a fully-invested management team. Our analysis shows Distinct can leverage these strengths to capitalize on the growing and consolidating market for telecom and utility construction, and unearth above-average returns through 2019. We assign DIG an Outperform rating and a 6-12 month target of $1.90.

Analysis

- **Poised to profit big from a golden era in telecom and utility construction**. A track record of project execution, safety and customer service has earned Distinct preferred contractor status with many clients. At the top of the list are Canada's big telecoms, which are making generational investments in fibre optic bandwidth. They are doing so because the exponential growth in data consumption is placing enormous demands on their fixed wireline networks. Not to be left behind, utilities are upgrading their grids to improve resiliency and adapt to changing power flow dynamics. All of this is effecting solid organic and strategic growth opportunities for contractors with the skills and capacity to handle more work—such as DIG.
- **The firm boasts industry-leading profitability.** DIG generates higher EBITDA margins than most other construction stocks we follow partly because it self-performs the vast majority of its work. It also has the good fortune of serving deep-pocketed customers, thanks to the oligarchy status of Canada's big telecoms and the monopoly-like powers regulated utilities enjoy. Importantly, these clients care far more about quality of workmanship, safety performance and timely execution than getting bang for their buck (unlike public sector clients). This has allowed Distinct to negotiate master service agreements (MSA) with Bell and Rogers, rather than pursue the more competitive hard-bid route common in construction.
- **Your horse in this race.** DIG is the only remaining publicly-listed specialty contractor domestically and among the select few that can perform telecom work on a national scale. Another pull for us are its two co-CEOs and largest shareholders. They continue to bring strong and complementary skills to the table, but are now drawing on new partners to transform Distinct into a Canadian infrastructure services leader. This includes anchor investor Seafort Capital, which stands ready to backstop the firm's many future growth initiatives, whether they be organic or strategic.

Valuation

We base our target on a forward EV/EBITDA multiple of 8.0x, which approximates the average of 7.8x at which a group of specialty contractors and hydrovac firms have traded since DIG went public. We argue there is room for the stock's valuation to approach that of US giant Dycom (currently at 10.2x 2018E) over time as it delivers on its growth plans.

EBITDA (mln)	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Revenues (mln)	EPS
2016A	C$1.1	C$1.7	C$3.1	C$2.3	C$8.2	C$60	C$0.03
2017E	1.6	2.4	3.0	2.5	9.5	77	0.09
2018E	2.5	3.8	4.6	4.1	15.0	108	0.15
2019E	2.7	4.4	5.4	4.9	17.4	118	0.18

Source: Raymond James Ltd., Thomson One

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Investment Overview

With this initiation report, we add to our coverage universe a specialty contractor that we believe has just as promising growth prospects as NAPEC (which we recently lost to Oaktree Capital's takeover offer). Distinct Infrastructure also boasts many of the compelling attributes that ought to get small-cap investors jazzed up—a strong position in a fragmented industry, high-margin recurring activities and a fully-invested management team. Herein we show how DIG can leverage these strengths to the benefit of its shareholders. Some key considerations backing our investment case include:

- **We see organic revenue continuing to grow at double-digit rates through 2019**. DIG derives about 75% of its volumes from investment-grade telecom operators, which are at various stages of their Fibre-to-the-Home (FTTH) rollouts across Canada. It is also one of the first service providers out of the gate on 5G, working closely with the manufacturers establishing the newest wireless standard (and multi-billion-dollar grab bag). An estimated 25% of Distinct's top-line stems from regulated utilities, which are investing heavily to support changing power flows and keep their existing infrastructure up to snuff. In each case, customers are turning to fewer trusted partners so they can focus on core operations and reduce risk. This is creating tremendous opportunities for DIG, which is not only able, but also willing to assume more responsibilities.
- **There are ample potential M&A opportunities not baked into our expectations.** In our opinion, Distinct has the potential to join Aecon Group as a national heavyweight for telecom and utility construction. The market is fragmented and mainly comprised of regional mom-and-pop operators that not only lack the motivation and expertise to expand beyond their borders, but also struggle to secure sufficient capital to grow with their clients. Consistent with management's stated strategy, we believe DIG can leverage the support of its anchor investor (Seafort) and the Street in the foreseeable future to tuck-in contractors in new geographies or specialties, then progressively gain market share organically once established. A textbook example of this was last fall's acquisition of Manitoba-based Crown Utilities. It instantly gave the firm a leading position in shallow utility work across the province, broadened its offering to include electric power and gas distribution services, and added Manitoba Hydro to its list of key clients. Longer-term, we believe DIG represents an ideal takeover target for a large utility contractor with subscale presence in the telecom sector or a telecom-heavy contractors on the lookout for a Canadian footprint.
- **Small contracts and low-risk recurring work create stability.** Despite relying on only a few core clients, DIG derives the bulk of its work from many small orders. Accordingly, its revenue and cash flows should show less volatility than contractors chasing large, but all too often lumpy projects, all else equal. We further highlight that telecom and utility customers award a lot of repeat business to pre-qualified contractors, and will expand or narrow the scope of work they hand out based on performance and safety. Management understands this fully and ensures Distinct executes like a company multiple times its size and maintains a coveted safety record. Considering the firm's technicians handled ever more work without reporting any Lost Time Injury (LTI) in 2017, DIG must be doing something right. All of this is helping the company build sticky relationships and grow its brand as a trusted contractor.
- **Experienced management team with complementary skills and skin in the game.** Joe Lanni brings an entrepreneurial flair that is vital to Distinct's health and growth, in our view, while longtime friend Alex Agius adds unmatched knowledge of the operations and culture of a specialty contractor. Just as importantly, each holds 15% of DIG, giving them all the motivation in the world to see the business through successfully and drive shareholder value.
- **Distinct offers strong growth at a reasonable price.** The stock trades at 7.6x our current year EBITDA estimate versus an average multiple of 8.6x for comparable US specialty contractors and select hydrovac and environmental firms. We expect DIG's multiple to expand to 8.0x over the next six to twelve months as it outpaces the sector's growth, reestablishes margin momentum and improves working capital efficiency. We see more potential upside over time as the firm grows out of its small-cap status and amasses an institutional following. Assuming management's game plan works as well as we expect it will, and market multiples are maintained, investors could be staring at a $3.00 stock price in two years' time.

Company Backgrounder

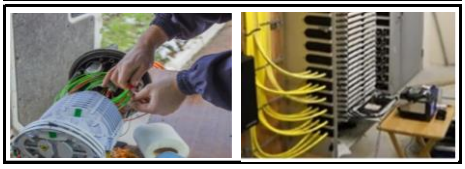
Company Profile

Distinct Infrastructure Group, aptly shortened to DIG, is an infrastructure services company based in Ontario and with a growing presence in Western Canada. The firm mainly offers underground construction, aerial construction and technical services to big telecom players, utilities and all levels of government. DIG's capabilities range from the design-build of next generation fibre optic networks and the construction and maintenance of electrical distribution systems to hydro excavation (hydrovac) and directional drilling. In addition, the self-proclaimed "Holes, Poles and Trenches" contractor offers inventory warehousing and management for its clients. DIG operates under the DistinctTech and iVac banners in Ontario and Alberta, and as Crown Utilities in Manitoba. As at Dec-31-17, the specialty contractor owned over 650 pieces of equipment and employed a predominantly-unionized workforce of about 550. This union status provides a tangible advantage in staffing and training, which are two ever-growing concerns in Canada's construction industry.

Exhibit 1: Distinct Infrastructure's Geographical Footprint, Key Customers and Primary Service Segments

Underground Construction (Holes & Trenches)	Aerial Construction (Poles)	Technical Services
Directional Drilling	Pole Installation & Removals	Fibre To The Building (FTTB)
Hydro Excavation	Lash & Over-Lash Cables	Fibre To The Suite (FTTS)
Traditional Open Trench	Place Anchors & Down-Guys	Full Technical Design, Layout And Upgrading
Manhole Rebuilds & New Installation	3rd Party Pole Changes & Forced Moves	Segmentation & Node Splitting
Vaults, Chambers & Handwell	Cable Removal & Scrapping	Fiber Splicing & Testing
Existing Structure Blockage Repair		Co-Axial & Copper Splicing/Testing
Placing of Cables		





Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

A Bit of History

The self-proclaimed "Holes, Poles and Trenches" contractor…

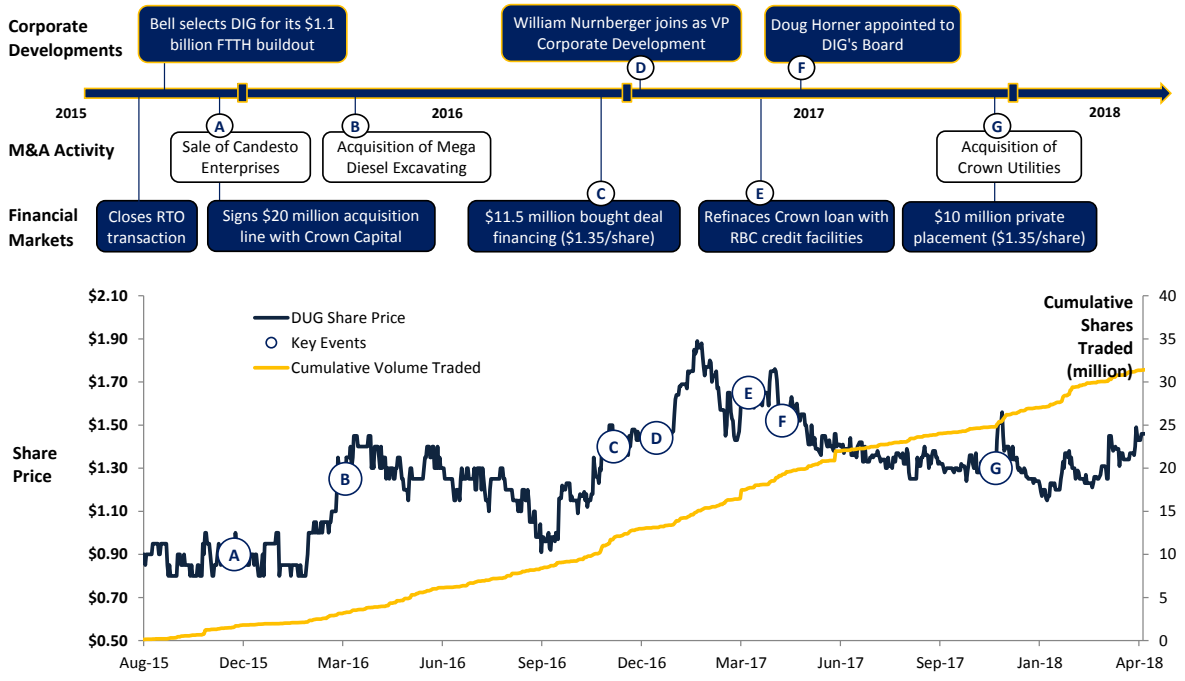
DIG's roots trace back to 2007 and DistinctTech, a startup Joe Lanni first ran out of his garage. Mr. Lanni initially focused his efforts on underground and aerial engineering services, outside network construction and maintenance, and wireless services for telecom companies in Southern Ontario. His long-time friend Alex Agius, after helping DistinctTech in an advisory capacity, joined full-time two years later. Under Messrs. Lanni and Agius' leadership, the company grew rapidly, moving its head office five times before eventually settling into its current 88,000 square feet shell on the outskirts of Toronto. They also extended the firm's service offering to utilities, established a hydrovac business and targeted the budding fibre optic market. This last initiative paid off in early 2015, when Bell selected DistinctTech as a preferred contractor for its massive $1.1 billion fibre-to-the-home (FTTH) rollout in Toronto.

To address the working capital requirements tied to its growing workload, and diversify geographically, DistinctTech completed a reverse takeover (RTO) transaction that summer. The firm bought QE2 Acquisition Corp., which traded on the TSX Venture and owned two small businesses in Alberta. It would retain Pillar Contracting, an Edmonton-based provider of streetlight, electrical and traffic control services, but later divest of road sign and guardrail provider Candesto Enterprises. In connection with the RTO, the firm rebranded as Distinct Infrastructure Group and adopted the ticker DUG (as DIG was already taken at the time).

…has achieved substantial growth since its 2015 RTO

Distinct established a $20 million term loan with mezzanine debt provider Crown Capital at the end of 2015, and then used part of the proceeds the following spring to make its first acquisition as a public entity. It snapped up another Edmonton service company, Mega Diesel Excavating, to expand its hydrovac capabilities and add capacity in the region. As organic growth continued unabated, DIG launched an $11.5 million bought deal equity offering at $1.35 per share in the fall of 2016 to fund working capital. By the second quarter of 2017, the company had already reached sufficient scale to refinance its costly acquisition line with an expanded credit facility. Later that year, Distinct welcomed a strategic partner (raising $9 million from Seafort Capital at $1.35 per share) and purchased Crown Utilities for $17 million (about 5.2x trailing EBITDA). Importantly, Crown instantly gave DIG a leading position in shallow utility work across Manitoba, and new capabilities in electric power and gas distribution. It also added Manitoba Hydro to Distinct's list of key clients and, coincidentally, pushed its revenue run-rate over the $100 million threshold almost exactly 10 years after its inception.

Exhibit 2: Company and Share Price History (2015-Present)



Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

Management & Ownership

Distinct's two top executives share almost 50 years of industry experience…

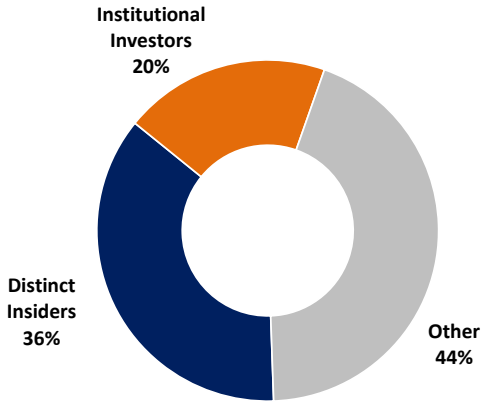
Alex Agius and Joe Lanni remain at the helm of Distinct as co-CEOs. Often a sign of battling egos and endless management disputes, the shared position in DIG's case appears well balanced to us. The two friends split a large office by choice and lean on each other's complementary industry knowledge and background to make decisions. While both have overlapped on many aspects of the CEO role to date, Distinct's unabated growth now dictates they divide and conquer more. Beginning this year, each will assume roles that play to their respective strengths, with Mr. Agius tackling "core and culture" and Mr. Lanni leading the firm's strategic and capital markets efforts. The former executive started as a field tech out of school and rose to VP Construction at Sentrex, one of Distinct's closest competitors, giving him a full appreciation of the cultural fabric and operational minutiae of a utility contractor. The latter not only founded several businesses in his youth, but also grew Wesbell's Western Canadian operations to over 60 technicians prior to establishing DistinctTech. In 2014, the pair welcomed Manny Bettencourt to the position of CFO. Mr. Bettencourt brought a wealth of experience gained at First Global Data, a public mobile payments company, and various telecom and IT companies. He is currently on a personal leave of absence, however, and the timing of his return is uncertain. Rounding out the management team and heading up M&A efforts is William Nurnberger, VP Corporate Development, who joined at the start of 2017 after performing similar roles with Mosaic Capital and Black Diamond Group. Mr. Nurnberger now has the added responsibility of holding down the financial fort during Mr. Bettencourt's absence.

… and are fully aligned with shareholders

We estimate there are approximately 46.1 million shares of Distinct outstanding pro-forma the Crown Utilities acquisition and concurrent financings. This gives Messrs. Agius and Lanni, each of whom own 6.8 million shares, significant "skin in the game" with a combined stake of about 30%. We view this high level of management ownership as particularly critical for small-cap names like DIG, where cash compensation does not necessarily incentivize the round-the-clock push involved in turning a small company into a successful stable cash flow generator. As of the date hereof, Seafort ranked as the only institutional shareholder with an interest greater than 10%. The Halifax-based investment firm notably owns as much stock as either one of Distinct's co-CEOs, a requirement it made conditional to its participation in the Crown Utilities private placement. Also outstanding are 4.6 million options with a weighted average exercise price of $1.77 per share and 3.3 million warrants with a weighted average exercise price of $1.97 and various expiries between 2018 and 2020.

Exhibit 3: Share Ownership Position (Pro-Forma as of Apr-09-18)

Ownership Summary	Shares Owned	%
Management, Directors and Other Insiders		
Alex Agius	6,803,704	15%
Joe Lanni	6,803,704	15%
Crown Utilities[1]	2,962,963	6%
Michael Newman	65,000	0%
Garry Wetsch	68,275	0%
Manny Bettencourt	46,111	0%
Douglas Alan Horner	21,000	0%
	16,770,757	**36%**
Institutional Ownership		
Seafort Capital	6,800,000	15%
AGF Management Limited	1,372,500	3%
IA Clarington Investments	343,135	1%
LDIC	250,000	1%
London Life Insurance	165,500	0%
Other	79,000	0%
	9,010,135	**20%**
Unidentified Holders	20,302,673	44%
Total Shares Outstanding	**46,083,565**	**100%**

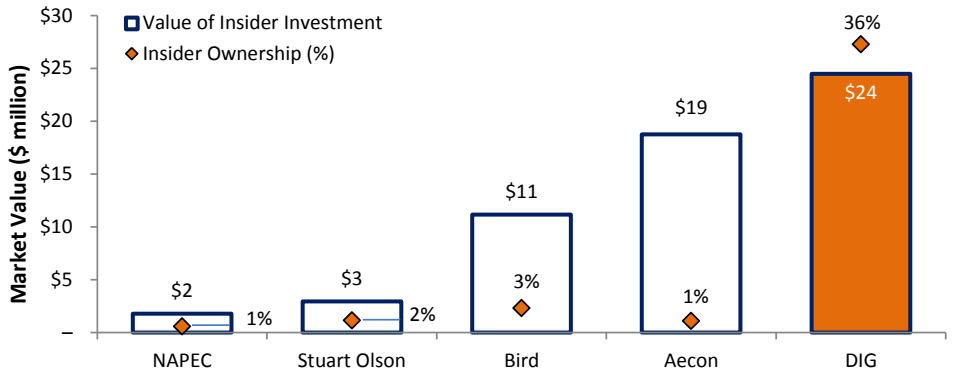


Notes:

1) Consideration for Crown Utilities included a vendor-take-back

Source: Distinct Infrastructure Group Inc., Raymond James Ltd., SEDI, Bloomberg

Exhibit 4: Distinct Insider Ownership Stands Out Among Canadian Publicly-Traded Contractors



Notes:
1) NAPEC prior to privatization

Source: Distinct Infrastructure Group Inc., Raymond James Ltd., SEDI, Bloomberg

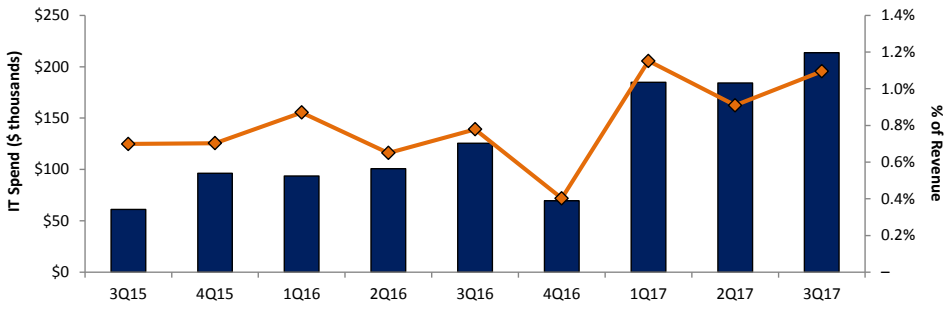
Using a current stock price of $1.46, Distinct's market capitalization equates to $67 million. After adding $47 million in net debt and finance leases, which represents our 2017 year-end estimate after factoring in the Crown Utilities deal, the firm's enterprise value approximates $114 million. On a pro-forma basis, this equates to a TTM EV/EBITDA multiple of 9.0x versus an average of 9.5x for a group of larger, but lower growth US specialty contractors, and a net debt/EBITDA ratio of 3.7x.

What Investors Need to Know

DIG's focus on execution, safety and service…

Focus on "right stuff" has helped DIG scale up. It is a challenge for new research analysts to properly assess a company's intangibles at the onset, but we have seen enough from this small-cap company (and been around the block sufficiently long) to assert it could potentially grow into one of Canada's leading infrastructure services companies. In many ways it already acts the part. Management has built Distinct Infrastructure around a solid track record of project execution, safety and customer service since its early days. More recently it launched an initiative to ensure DIG meets or exceeds already elevated operational goals for years to come. Distinct has notably invested over $1 million on a proprietary control center that provides advanced fleet tracking and scheduling, job details, health and safety compliance information, and billing and payable functions. The next step is for wireless tablets to be rolled out in the field, which is expected to significantly improve technicians' efficiency. Uncommon for firms of DIG's size, these efforts not only create obvious efficiencies that benefit margins, in our view, but also help exceed customer expectations.

Exhibit 5: Capital Is Continuously Deployed to Develop a Scalable Control Center Infrastructure



Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

…has paid off handsomely

Distinct has a "good problem" with Bell. This ability to continuously deliver has earned Distinct preferred contractor status with many clients in the Greater Toronto Area—Canada's largest and most promising growth market. Sitting atop the list is Bell, from which DIG currently generates about half of its volumes. The customer-supplier relationship between the two organizations has reportedly grown so strong that the telecom company now has an open order for all the capacity DIG will allocate it. Management recognizes that too much of a good thing can be bad when it comes to concentration risk, and is carefully balancing Bell's demands with those of other incumbents in the GTA, including Rogers and Toronto Hydro. We have reason to believe a similar thought process is driving DIG to capitalize on its growing recurring business to broaden its horizons with expanded offerings and entry into new geographies. This was evident in the Crown acquisition, which exposed the company to new verticals, new customers and a new region in one fell swoop.

DIG's expansionary push couldn't come at a better time. The profound transformation of the US utilities sector continues to attract cross-border investments from just about every Canadian utility, including Hydro One, Fortis, Emera and Enbridge. It is also creating tremendous opportunities for specialized contractors such as NAPEC, which was under our research coverage for only a brief period before Oaktree Capital privatized the business earlier this year. These headline grabbers may lead investors to think the domestic market for the services DIG provides isn't attractive. This couldn't be further from the truth, from where we sit, as the next few years are shaping up to be a golden era for specialty contractors in Canada.

Exhibit 6: Distinct Has Lots of Room to Expand Its Markets, Services and Customer Base

Source: Raymond James Ltd.

North American telecoms are making a generational investment in fibre optic bandwidth. They are doing so because the exponential growth in data consumption demands are outstretching the capacity of their existing fixed wireline networks. Whether through cable TV, wireline internet or mobile technology, pictures and videos are downloaded today on more devices and at higher resolutions than ever before. To bring this point home, we note it takes 17 times as much bandwidth to display an image on the newest 8K TV than it did a decade or so ago using the hottest technology at the time. Although each Canadian telecom has its own plans to deal with the monumentally greater demand for data it is facing, they all involve laying lots of fibre optic cable.

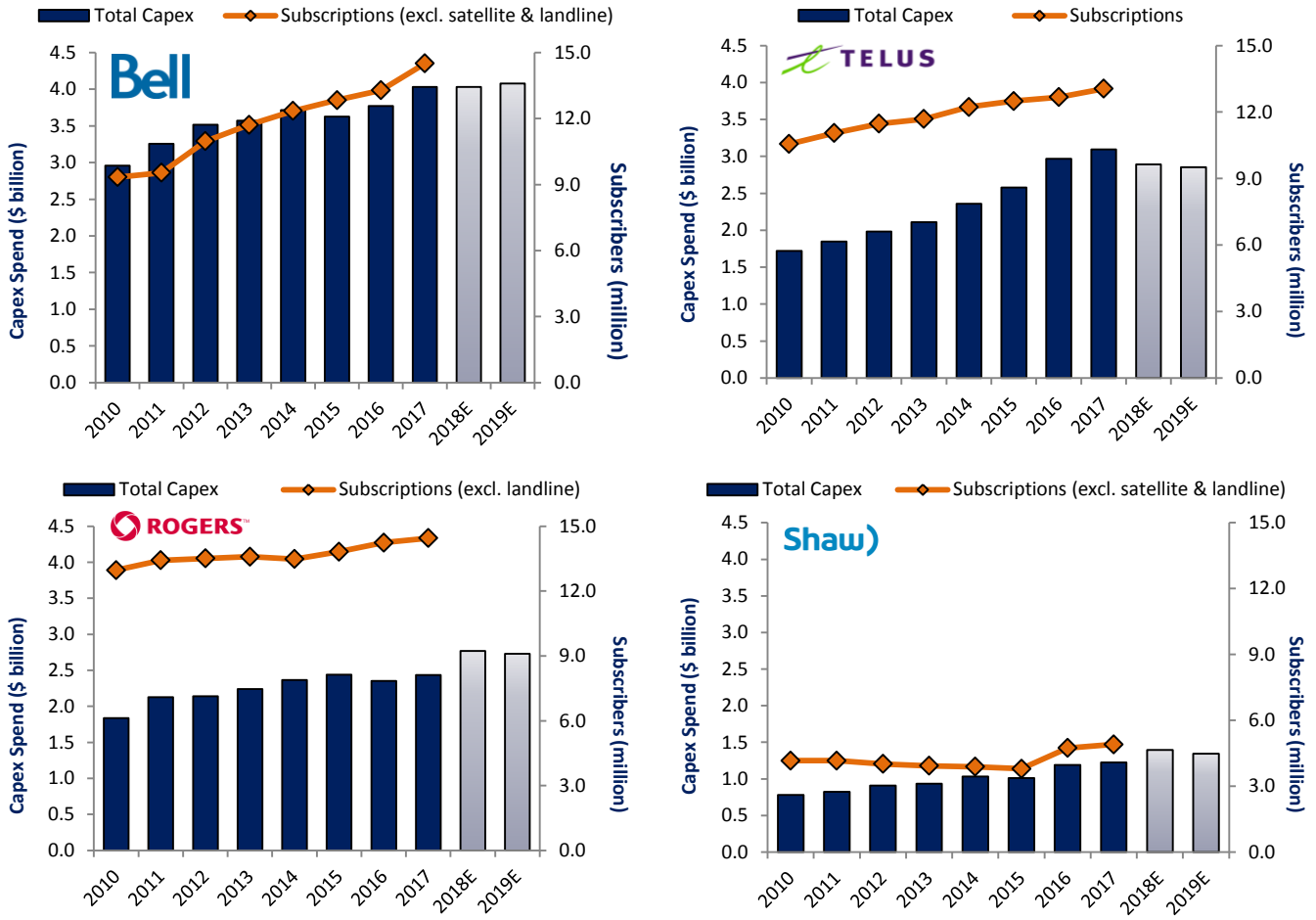
DIG can grow substantially as it supports the boom in mobile connectivity…

Bell to lead the pack domestically. We expect annual capital expenditures of $13 billion (and growing) from Canada's major telecommunications companies over the next couple of years. An outdated phone line infrastructure combined with an ambitious competitive strategy gives Bell a disproportionate share of the projected spend, while Shaw's reliance on its existing cable has the telecom trailing the pack. Rogers' cable backbone has also led it to underspend on fibre, but its new CEO hails from Telus, and understands the inevitability of fibre infrastructure to the future. We should add these investments are largely directed at getting fibre closer to the home. They do not capture any capital outlay tied to 5G, which all four telecom incumbents are planning behind the scenes.

5G rollout provides multi-year revenue visibility. The technology underpinning the next wireless standard is expected to push mobile connectivity to a whole new level starting in 2020. Because it relies on significantly higher radio frequencies than today's cellular networks, 5G will enable augmented and virtual reality devices, autonomous vehicles and other smart transportation applications at exceptional scales and data rates. The flipside to 5G is its limited range, however. For the technology to work well, it is unanimously understood many additional small radios, or cells, will need to be installed closer together, implying increased fibre-line density. If we haven't convinced you yet of the vital role fibre optic cable plays in the deployment of wireless technology, consider this: 1,390,816 miles of fibre cable would be required to provide full 5G service to the top 25 US metropolitan areas, according to a Fiber Broadband Association white paper. That's enough cable to circle the earth 56 times!

DIG already on it. Distinct Infrastructure has formed a 5G team and is working closely with the manufacturers establishing the newest wireless standard. This is happening just as telcos in the Greater Toronto Area (GTA) are planning the infrastructure for small cells, which will run 4G until the next generation is ready for rollout. Based on current estimates, approximately five kilometers of additional fibre would be required per square kilometer to incorporate all 5G bells and whistles. This represents a potential investment of $3.7 billion per carrier over the next 7 to 10 years. It is also worth noting that about 85% of this spend would be earmarked for fibre replacement and enhancement—DIG's core business.

Exhibit 7: Bell and Telus are Leading the Capex Charge Among the Major Canada Telecoms and Reaping the Rewards



Note: estimates are consensus from Capital IQ

Source: Company Reports, Capital IQ, Raymond James Ltd.

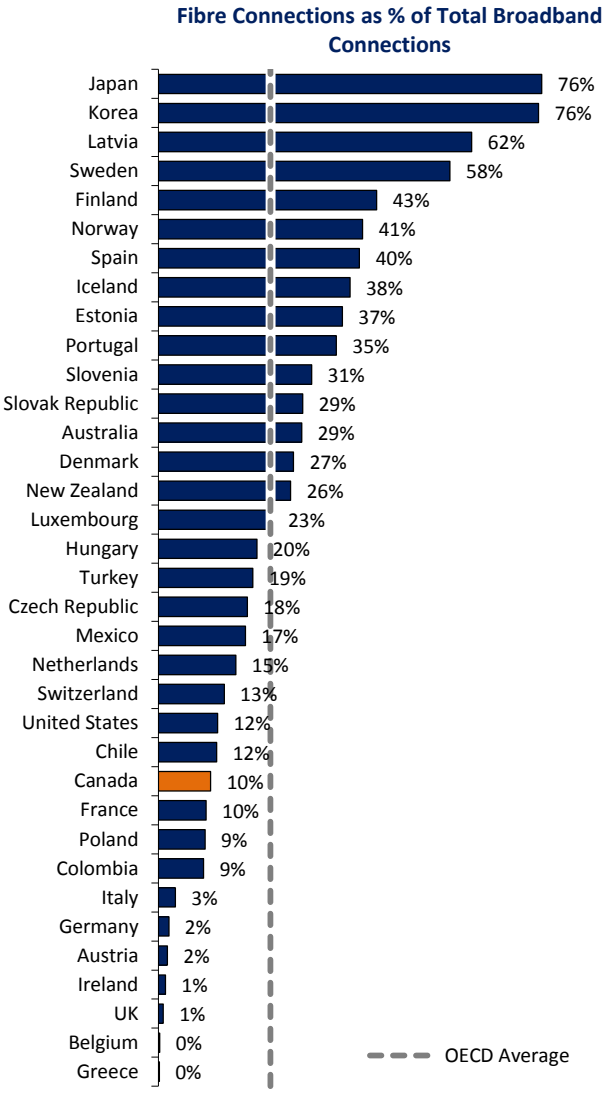
Distinct is subscale in the utilities sector, but has opportunity to gain market share. Many jobs in utility and telecom contracting share the same fundamental base—digging holes and erecting poles. This has allowed Distinct to assume on a selective basis aerial and underground work for electric utilities such as Toronto Hydro and Hydro One, which are playing catch up after years of underinvestment in Ontario's transmission and distribution network. However, a lack of expertise in gas distribution, combined with the much lower hanging fruit available in fibre optic, has kept the firm's attention away from this relatively mature vertical. That may change now that Crown Utilities is under Distinct's ownership. There is solid potential for DIG to cross-sell Crown's power and gas offering to its existing customers in the GTA (and beyond) over time. But for the moment we have left any potential related upside out of our financial forecasts for the contractor.

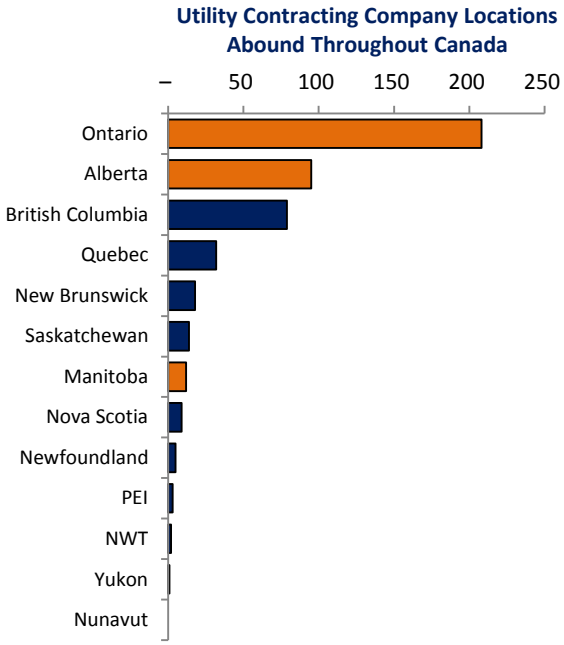
…and consolidates service providers to gain scale and diversify

The market for specialty contracting remains highly fragmented. The largest player that comes to mind, Quanta Services, primarily focuses on large-scale power infrastructure and oil and gas pipelines in Canada, and subcontracts the little telecom work it assumes to cheaper alternatives to DIG. Telecom contracting leader Dycom, meanwhile, has concentrated its efforts on the colossal opportunities available south of the border. This, in our opinion, leaves Aecon Group as the only real national heavyweight and Distinct as the small-sized specialty contractor with the best potential to follow suit. Not only do most other regional incumbents lack the motivation, expertise and relationships to successfully expand beyond their markets, they also often struggle to secure sufficient capital to grow with their existing clients. Considering that two keys to modern underground work, horizontal directional drills (HDD) and hydrovacs, will set a contractor back a respective $200,000 and $400,000, this risk looks very real to us. It may even lead owners to sell for fear of losing years of sweat equity—and that's where DIG comes in. Because it checks all the

above boxes, we believe the firm is uniquely positioned to consolidate Canada's telecom and utility construction sector (not unlike what NAPEC is achieving stateside).

Exhibit 8: Distinct Has a Great Opportunity to Consolidate Canada's Underpenetrated and Fragmented Market for Telecom Construction





Distinct operates in two of the nation's largest markets, but is conspicuously absent from BC

Source: Statistics Canada, OECD, Broadband Portal, Raymond James Ltd.

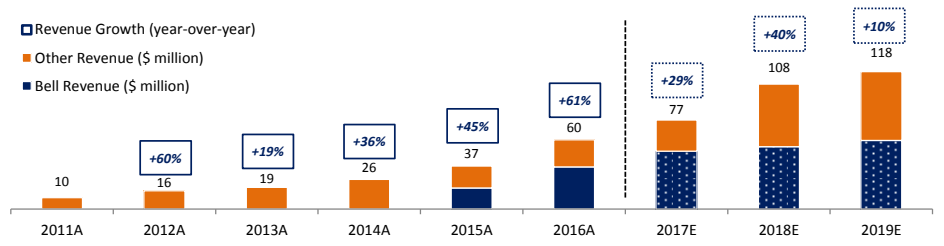
We see Distinct expanding further west over our forecast horizon. The reasons for this are pretty straightforward. The firm remains subscale in Alberta notwithstanding its tuck-in acquisition of Mega Diesel, and has yet to establish a toehold in British Columbia. We profess having no clue to which province DIG's M&A efforts will take it next. What investors should reasonably expect as a result, however, is increased business from one or more of Rogers, Telus, and Shaw, and a more diversified stock.

Financial Analysis & Outlook

We forecast strong revenue growth…

Double-digit organic growth on tap. Our top-line estimates for 2018 and 2019 are set at $108 million and $118 million, respectively, compared to the $77 million we believe Distinct achieved in 2017. We expect the firm's expanding relationships and the robust capital spending plans of its key telecom customers to power an internal growth rate of 15% for this year, and the Crown deal to add an incremental 25% to revenue. Our organic growth assumption for next year is a more modest 10%, but could prove conservative if management can improve fleet utilization and execute on opportunities to cross-sell its newly acquired power and gas capabilities into Alberta and Ontario. Failing this, we believe DIG can still grow its business with Bell while lowering its overall exposure to the telecom giant. Our forecasts, as they stand, notably have Bell accounting for approximately 50% of the firm's volumes in 2019, down from an estimated high of 65% in 2017.

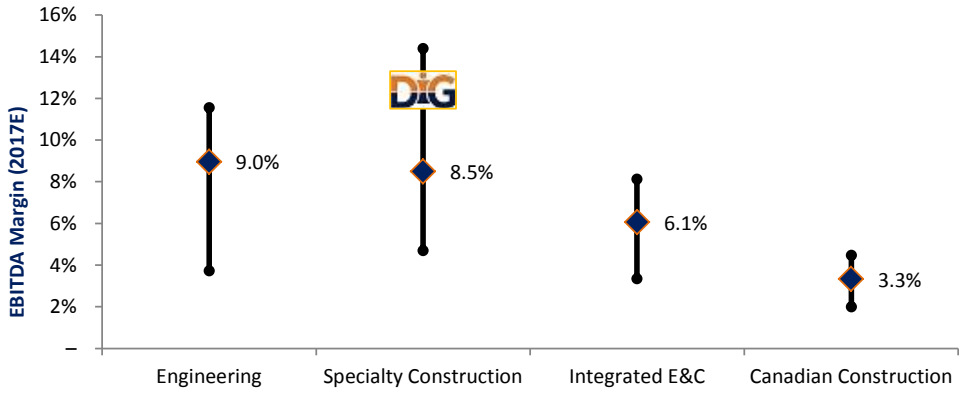
Exhibit 9: Distinct Has Posted Double-Digit Revenue Growth for the Last Five Years



Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

The firm boasts industry-leading profitability. Distinct Infrastructure has averaged higher EBITDA margins than most other construction stocks we follow, partly because it self-performs the vast majority of its work. It also has the good fortune of serving deep-pocketed customers, thanks to the oligarchy status of Canada's big telecoms and the monopoly-like powers regulated utilities enjoy. Importantly, these clients care far more about quality of workmanship, safety performance and timely execution than getting bang for their buck (unlike public sector clients). This has allowed Distinct to negotiate its master service agreements (MSA) with Bell and Rogers, rather than pursue the more competitive hard-bid route common in construction.

Exhibit 10: Distinct's Margins Are Near the Top of the Range for Specialty Contractors



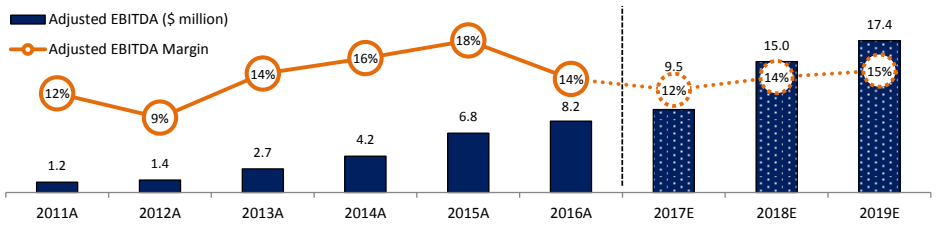
Source: Capital IQ, Raymond James Ltd.

…and improving margins over our forecast horizon

We expect EBITDA margins to normalize in the mid-teens. DIG's profitability has shrunk from a high of 18% in 2015 to an estimated 12% in 2017 owing to a combination of rising labour costs and growth-related expenses. The former crept up in 2016 after the company unionized its workforce and again in 2017 as wage pressure and higher turnover gradually returned to the broader construction sector. The latter rose as key executive hires, ramping capital markets activities and significant IT investments added heft to the G&A line. As we look ahead, there are four good reasons to expect DIG's margins to reverse course. First, investments in the proprietary control center will slow just as efficiency gains start materializing. Second, plans are in place to

contract out hydrovacs when not in use by DIG to produce more revenue per available truck. Third, a back-to-basics approach to operations should help Mr. Agius extract better productivity out of Distinct's field technicians. Fourth, operating leverage should materialize as the growth in gross profits outpaces that in G&A. This, at least, is what is implicit in our respective EBITDA margin target of 14% and 15% for 2018 and 2019.

Exhibit 11: We See Distinct Expanding its Margins through 2019



Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

EPS to double over our forecast horizon. On a monetary basis, our current year EBITDA comes in at $15 million, which is good enough for a sector leading gain of 58% year-over-year. For next year we forecast an additional all-organic lift of 16% to $17 million. After deducting $6 million in depreciation, amortization and interest expenses for both years, layering on an effective income tax rate of 27% and treating most dilutive securities as out-of-the money through our forecast horizon, we derive EPS estimates of $0.18 for 2019 and $0.15 for 2018 (up from a projected $0.09 for 2017).

Exhibit 12: Distinct Infrastructure Income Statement Summary

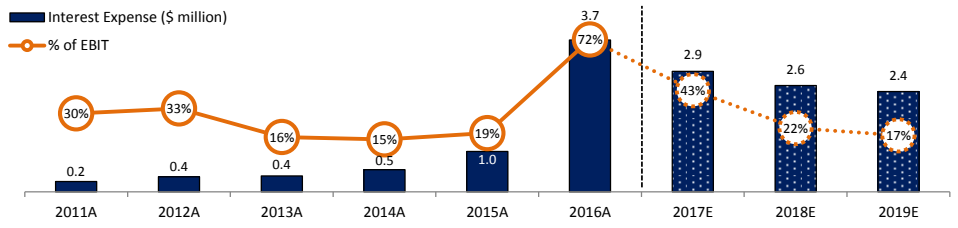
Year End December 31; $ million	**2015**	**2016**	**2017E**	**2018E**	**2019E**	**% Chg 16/15**	**% Chg 17/16**	**% Chg 18/17**	**% Chg 19/18**
Revenues	37.1	59.7	76.7	107.6	118.4	61	29	40	10
Cost of Contracts	24.9	42.0	55.0	76.7	83.7	69	31	39	9
Gross Profit	**12.2**	**17.6**	**21.7**	**30.9**	**34.6**	44	23	43	12
SG&A	5.4	9.7	12.2	16.0	17.3	78	27	31	8
Adjusted EBITDA	**6.8**	**8.2**	**9.5**	**15.0**	**17.4**	20	16	58	16
Depreciation and Amortization	1.6	2.9	2.7	3.1	3.5	82	(6)	14	13
Operating Profit	**5.2**	**5.1**	**6.7**	**11.9**	**13.9**	(3)	33	76	17
Finance Charges	1.0	3.7	2.9	2.6	2.4	275	(21)	(12)	(6)
Earnings (loss) before income tax	3.0	1.3	1.6	9.3	11.4	(57)	23	473	23
Income tax expense (recovery)	0.8	0.5	0.4	2.5	3.0	(34)	(32)	604	23
Net Income	**2.3**	**0.8**	**1.3**	**6.8**	**8.4**	(64)	57	437	23
Earnings per share	**$0.12**	**$0.03**	**$0.09**	**$0.15**	**$0.18**	(74)	204	63	23
Weighted average number of shares (million)									
Diluted	20.7	27.1	36.7	46.1	46.1	31	35	26	0
Ratios: (%)									
Gross margin	32.9	29.5	28.3	28.7	29.3				
SG&A expenses/revenues	14.6	16.2	16.0	14.8	14.6				
Adjusted EBITDA margin (%)	18.4	13.7	12.4	14.0	14.7				
Depreciation and amortization/revenues	4.3	4.8	3.5	2.9	3.0				
EBIT margin (%)	14.0	8.5	8.8	11.0	11.7				
Effective income tax rate	25.5	38.7	21.6	26.5	26.5				
Profit margin	6.1	1.4	1.7	6.4	7.1				

Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

DIG's capital structure has been simplified and strengthened. Distinct turned to expensive debt to fund its growth aspirations in late 2015, before a wave of industrial consolidation starved the

banks of hard-asset based firms to lend to. DIG capitalized on this strong demand environment (and its investment grade receivables) a mere 18 months later to lock in more flexible and significantly cheaper credit facilities, despite its small size. The company has since repaid $2 million of related party receivables and shunned from issuing more equity than necessary, further underscoring management's efforts to clean up the balance and improve cash flow. We believe all of this will also go a long way in making DIG's stock more attractive to institutional shareholders.

Exhibit 13: FCF and EPS Should See Meaningful Improvement Post Refinancing of Crown Loan



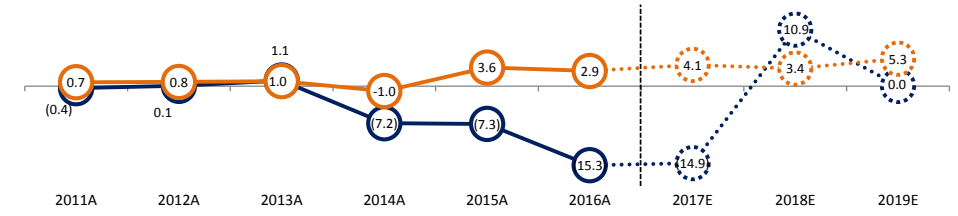
Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

Better working capital management…

One challenge has been working capital. It notably spiked to the tune of $18 million in 2016 and we estimate that a further $19 million was added in 2017. Part of the increase, to be fair, ought to be expected for a fast growing contractor like Distinct, which pays its employees on a much shorter cycle than it bills for its services. The bulk of DIG's working capital deficiency, however, relates to issues over which the firm has little control. Canadian telecoms simply disallow progress billing and are notorious for long payment cycles. The slowest of them all, to make matters worse, happens to be Distinct's best client—Bell.

Diversification the answer to better working capital efficiency. The good news is that steps have already been taken toward this goal. For one, last fall's acquisition of Crown Utilities, which operates with a days sales outstanding (DSO) metric of 60, immediately improved DIG's receivables cycle by 15% to 20% on a pro-forma basis. We also believe that as Distinct continues to expand capacity and capture more business from faster paying telecoms, its ability to free up cash should gradually improve. Separately, we understand that management is assessing the practicality and impact of a receivables allocation system (similar to factoring). This would allow DIG to effectively sell its slowest paying receivables at a modest discount and reinvest the cash immediately. Such a financing strategy does not appear necessary to us at this stage; we merely mention it to show management has available options to fund DIG's growth opportunities.

Exhibit 14: We Forecast DIG Returning to Positive Free Cash Flow in 2018



Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

…should help DIG deleverage further over our forecast horizon

Leverage is tracking in the right direction. Although we would be remiss to call Distinct's balance sheet strong, we take comfort in the fact that it is slowly improving. We estimate the company finished 2017 with a net debt-to-EBITDA ratio of 3.3x pro-forma the acquisition of Crown Utilities, down from 3.5x at the end of 2016. As Distinct continues to grow the bottom-line and does a better job at converting it to cash over the next 18-24 months, we see the deleveraging process accelerating. Our forecasts notably have DIG's net debt-to-EBITDA ratio dipping to 2.2x at the close of 2018 and to 1.8x twelve months later. This should leave the specialty contractor with enough flexibility to execute on further expansion initiatives. But any potential accretive acquisition of size ought to be funded at least partly with equity, in our view, as it would help increase DIG's public float, enhance stock liquidity and improve valuation.

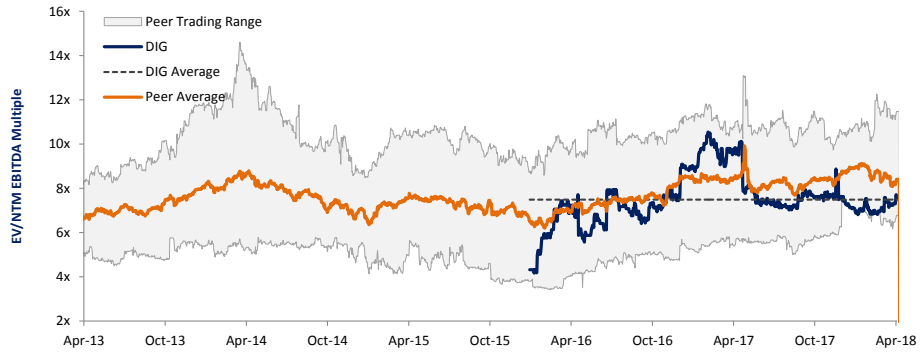
Valuation & Recommendation

With this initiation report, we add to our coverage universe a specialty contractor with just as promising growth prospects as NAPEC (which we recently lost via Oaktree Capital's takeover). Distinct Infrastructure also boasts many of the compelling attributes that we believe ought to get small-cap investors jazzed up—a leading position in a fragmented market, high-margin recurring activities and a fully-invested management team. Now that some smart money has caught on, DIG has our full attention. We assign the stock an Outperform recommendation and a target price of $1.90, which reflects a potential return of 30% from current trading levels.

We view Distinct's valuation as very reasonable given its above-average growth and margin profile

Our valuation assumes that the EV/EBITDA multiple using our 2018 estimates will increase from the current 7.6x to 8.0x over the next six to twelve months. Our target multiple for Distinct is greater than the 6.5x we currently use to value our three general contractors, but for good reasons. As evinced in this report, the firm boasts a stronger growth outlook, better margins and a significantly lower risk profile than each of Aecon Group, Bird Construction and Stuart Olson—all of which should contribute to a premium valuation in our books. We further note our target multiple for DIG looks reasonable when measured against the average multiples of 7.2x for US-based specialty contractors and 9.5x for a group of hydrovac and environmental firms since DIG went public in 2015. Over the foreseeable future, we believe there is room for Distinct's valuation to approach that of US telecom contracting behemoth Dycom as it delivers on its objective to grow into one of Canada's leading infrastructure services companies.

Exhibit 15: Distinct Trades In-line With Its Historical Average



Source: Capital IQ, Raymond James Ltd.

Exhibit 16: There Is Significant Upside as Distinct Continues To Execute On Its Growth Plans

2018E EBITDA ($ millions)	Assumed EV/EBITDA Multiple								
	6.0x	6.5x	7.0x	7.5x	8.0x	8.5x	9.0x	9.5x	10.0x
$13.0	$0.97	$1.11	$1.25	$1.39	**$1.53**	$1.67	$1.81	$1.95	$2.09
$14.0	$1.10	$1.25	$1.40	$1.55	**$1.70**	$1.86	$2.01	$2.16	$2.31
$15.0	$1.23	$1.39	$1.55	$1.72	**$1.88**	$2.04	$2.20	$2.37	$2.53
$15.0	**$1.23**	**$1.39**	**$1.55**	**$1.72**	**$1.88**	**$2.04**	**$2.21**	**$2.37**	**$2.53**
$16.0	$1.36	$1.53	$1.70	$1.88	**$2.05**	$2.23	$2.40	$2.57	$2.75
$17.0	$1.49	$1.67	$1.86	$2.04	**$2.23**	$2.41	$2.59	$2.78	$2.96
$18.0	$1.62	$1.81	$2.01	$2.20	**$2.40**	$2.59	$2.79	$2.98	$3.18

Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

Longer-term, we believe DIG could attract the interest of a large utility contractor with subscale presence in the telecom sector or a telecom-heavy contractors on the lookout for a Canadian footprint. But we'll refrain from predicting just when or how a takeout might transpire for we know it is a quasi-impossible feat—like pushing a wet noodle up a hill. In the meantime, we expect Messrs. Agius and Lanni to draw on the support of the Street as well as Distinct's anchor investor, Seafort, to deliver above-average returns to stockholders. If management's game plan works as well as we expect it will, and market multiples are maintained, investors could be staring at a $3.00 stock price in two years' time. Who knew digging for a living could be so rewarding?

Exhibit 17: DIG Trades at a Discount to Both its Canadian and US Peer Groups

Company Name	Ticker	Market Price	Market Cap (mln)	Net Debt (mln)	Ent. Value (mln)	P/E 2017A	P/E 2018E	P/E 2019E	EV/EBITDA 2017A	EV/EBITDA 2018E	EV/EBITDA 2019E	Net Debt/ Cap (%)	Price /Book (x)	Div. Yield (%)
CANADIAN CONSTRUCTION UNIVERSE														
AECON GROUP (CORE BUSINESS)	ARE.CA	$18.29	$1,294	($78)	$1,216	n.m.	24.3	21.4	7.7	6.3	5.7	n.m.	1.7	2.7
BIRD CONSTRUCTION	BDT.CA	$8.49	$361	($90)	$271	n.m.	15.4	11.4	9.5	6.4	4.9	n.m.	2.3	4.6
STUART OLSON	SOX.CA	$6.96	$192	$53	$245	19.7	17.3	15.4	6.8	6.0	5.7	21.6	0.9	6.9
						19.7	19.0	16.1	8.0	6.2	5.5			
U.S. SPECIALTY CONSTRUCTION														
QUANTA SERVICES INC	PWR.US	$33.46	$5,161	$534	$5,694	17.1	12.8	11.0	8.3	7.0	6.2	9.4	1.4	--
EMCOR GROUP INC	EME.US	$76.61	$4,472	($157)	$4,315	20.2	17.3	15.9	9.4	9.3	8.6	n.m.	2.7	0.4
MASTEC	MTZ.US	$45.80	$3,706	$1,328	$5,034	16.2	13.1	11.7	8.0	7.3	6.6	26.4	2.6	--
DYCOM INDUSTRIES	DY.US	$103.92	$3,241	$663	$3,905	19.9	26.2	18.2	8.8	10.2	8.3	17.0	4.5	--
AEGION CORPORATION	AEGN.US	$23.05	$751	$239	$990	22.4	17.2	14.5	8.4	8.6	7.7	24.1	1.5	--
MYR GROUP	MYRG.US	$30.51	$502	$77	$580	n.m.	15.9	13.9	8.8	6.6	6.2	13.3	1.8	--
MATRIX SERVICE	MTRX.US	$14.50	$389	($23)	$366	n.m.	23.4	14.1	n.m.	7.4	5.5	n.m.	1.2	--
						19.2	18.0	14.2	8.6	8.1	7.0			
HYDROVAC & ENVIRONMENTAL														
CLEAN HARBORS	CLH.US	$48.32	$2,730	$1,272	$4,002	n.m.	n.m.	38.2	9.4	8.6	8.0	31.8	2.3	--
MULLEN GROUP	MTL.CA	$14.96	$1,551	$405	$1,956	28.1	22.3	17.8	10.9	9.8	8.8	20.7	1.6	4.0
US ECOLOGY	ECOL.US	$53.65	$1,171	$251	$1,422	n.m.	24.1	21.5	12.4	11.4	10.7	17.6	3.6	1.3
BADGER DAYLIGHTING	BAD.CA	$25.43	$943	$48	$991	19.9	14.8	12.5	7.9	6.9	6.2	4.8	3.0	1.8
						24.0	20.4	22.5	10.2	9.2	8.4			
Blended Group Average						**20.9**	**19.1**	**17.6**	**8.9**	**7.8**	**7.0**			
DISTINCT INFRASTRUCTURE GROUP	**DUG.CA**	**$1.46**	**$67**	**$47**	**$114**	**16.0**	**9.8**	**8.0**	**12.0**	**7.6**	**6.6**	**41.0**	**1.7**	**--**

Notes:

1) Estimates for all three Canadian contractors and Distinct Infrastructure Group are from Raymond James Ltd.; all other estimates are consensus from Capital IQ.

2) Net debt (cash) positions for Aecon, Bird Construction and Stuart Olson exclude non-recourse project debt and restricted cash balances.

Source: Capital IQ, Raymond James Ltd.

Appendix A: Financial Statements

DIG Income Statement

Year End December 31; $ million	2015	2016	2017E	2018E	2019E
Revenues	37.1	59.7	76.7	107.6	118.4
Cost of Contracts	24.9	42.0	55.0	76.7	83.7
Gross Profit	12.2	17.6	21.7	30.9	34.6
SG&A	5.4	9.7	12.2	16.0	17.3
Depreciation and Amortization	1.6	2.9	2.7	3.1	3.5
Operating profit	5.2	5.1	6.7	11.9	13.9
Finance Charges	1.0	3.7	2.9	2.6	2.4
EBT	3.0	1.3	1.6	9.3	11.4
Total Tax	0.8	0.5	0.4	2.5	3.0
Net Income	2.3	0.8	1.3	6.8	8.4
EPS - Basic	$0.12	$0.03	$0.09	$0.15	$0.18
EPS - Diluted	$0.12	$0.03	$0.09	$0.15	$0.18
WA Shares Outstanding - Basic	20.2	27.1	36.6	46.1	46.1
WA Shares Outstanding - Diluted	20.7	27.1	36.7	46.1	46.1
Adjusted EBITDA Reconciliation					
Net Income (Loss)	2.3	0.8	1.3	6.8	8.4
Depreciation	1.6	2.9	2.7	3.1	3.5
Finance/Interest Charges	1.0	3.7	2.9	2.6	2.4
Income Tax Expenses	0.8	0.5	0.4	2.5	3.0
Stock Based Compensation	0.0	0.2	0.1	0.1	0.1
Adjusted EBITDA	6.8	8.2	9.5	15.0	17.4
Adjusted EBITDA Margin (%)	18.4	13.7	12.4	14.0	14.7
EBIT	5.2	5.1	6.7	11.9	13.9
EBIT Margin (%)	14.0	8.5	8.8	11.0	11.7

Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

DIG Cash Flow Statement

Year End December 31; $ million	2015	2016	2017E	2018E	2019E
Cash Flow from Operating Activities					
Net Earnings	2.3	0.8	1.3	6.8	8.4
Accretion	0.0	0.2	0.0	0.0	-
Share-Based Compensation	0.0	0.2	0.1	0.0	0.0
Depreciation & Amortization	-	2.9	2.7	3.1	3.5
Loss/(Gain) On Disposal	1.6	0.0	(0.3)	-	-
Other	0.9	-	1.2	-	-
Changes Before Working Capital	4.8	4.2	5.1	10.0	12.0
Changes in Working Capital	(10.9)	(18.2)	(19.0)	7.6	(5.3)
Net Cash Flow from Operating Activities	(6.1)	(14.0)	(13.9)	17.6	6.7
Cash Flow from Investing Activities					
Additions to PPE	(1.2)	(1.3)	(1.0)	(4.4)	(4.4)
Proceeds from Sale of PPE	-	-	0.7	-	-
Business Acquisitions	0.0	(1.9)	(13.0)	-	-
Other	0.7	-	-	-	-
Net Cash Flow From Investing Activities	(0.5)	(3.2)	(13.3)	(4.4)	(4.4)
Cash Flow from Financing Activities					
Shareholder Advances	(0.0)	0.1	0.1	0.3	-
Variation in Bank Loans	(7.3)	9.7	40.0	(2.3)	(2.3)
Variation in Debentures	(0.1)	(0.1)	(0.0)	(1.0)	-
Advances to Related Parties	(0.3)	0.4	0.1	-	-
Variation in Other Long Term Debt	19.6	-	(20.0)	(0.5)	-
Variation in Finance Lease	(1.8)	(2.9)	(3.0)	(2.5)	(2.2)
Share Issuance/(Buyback)	5.0	11.0	10.0	-	-
Net Cash Flow From Financing Activities	15.1	18.1	27.3	(6.1)	(4.5)
Change in Cash	8.5	0.9	0.0	7.1	(2.2)
Start Cash	0.0	8.5	9.4	9.5	16.6
End Cash	8.5	9.4	9.5	16.6	14.4

Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

DIG Balance Sheet

Year End December 31; $ million	2015	2016	2017E	2018E	2019E
Current Assets					
Cash	8.5	9.4	9.5	16.6	14.4
Accounts Receivable	16.2	23.7	36.8	33.9	35.7
Inventory	0.2	0.2	0.3	0.3	0.3
Prepaid Expenses And Deposits	0.9	0.6	0.6	0.8	0.9
Work In Progress	7.9	20.9	35.4	32.4	35.7
Due From Shareholders	0.2	0.1	-	-	-
Due From Related Party	0.4	0.3	0.3	-	-
Total Current Assets	34.3	55.2	82.7	84.1	87.0
Non Current Assets					
Deposits	0.1	0.1	0.1	0.1	0.1
Property And Equipment	10.3	13.2	16.1	17.4	18.3
Goodwill	4.1	5.1	13.6	13.6	13.6
Due From Related Party	1.5	1.2	1.1	1.1	1.1
Total Non Current Assets	15.9	19.6	30.9	32.2	33.1
Total Assets	50.3	74.8	113.7	116.3	120.1
Liabilities					
Bank Debt	0.3	10.0	50.0	47.8	45.5
Accounts Payable And Accrued Liabilities	5.0	6.5	12.7	14.7	14.6
Income Taxes Payable	1.4	1.3	0.3	0.3	0.3
Debentures & Other Debt	1.0	1.5	1.5	-	-
Other Loans	18.9	18.9	-	-	-
Finance Leases	7.2	7.8	4.9	2.3	0.1
Total Liabilities	33.8	45.9	69.4	65.1	60.5
Shareholders' Equity					
Share Capital	9.8	21.1	35.2	35.2	35.2
Contributed Surplus	0.0	0.3	0.4	0.4	0.4
Retained Earnings	6.7	7.5	8.7	15.6	24.0
Total SE	16.5	28.9	44.3	51.2	59.6
Total Liabilities & SE	50.3	74.8	113.7	116.3	120.1

Source: Distinct Infrastructure Group Inc., Raymond James Ltd.

Appendix B: Selected Transactions

Ann. Date	Acquiror	Target	Transaction Value (C$ mln)	Offer Premium	EV/LTM EBITDA	EV/NTM EBITDA
Dec-17	Oaktree Capital Management	NAPEC	320	35%	8.9x	7.7x
Oct-17	CCCC International Holding	Aecon	1,505	42%	9.2x	7.8x
Jun-16	TC Infrastructure Services	T.C. Backhoe & Directional	20			
Aug-14	Court Square Capital	Pike Corporation	612	51%	8.1x	
Nov-12	Primoris Services	Q3 Contracting	58			
Jul-12	Chicago Bridge & Iron	The Shaw Group	1,938		7.0x	
Jun-12	Pike Corporation	UC Synergetic	73		7.0x	7.5x
Aug-11	Pike Corporation	Pine Valley Power	24			
May-11	USM Services Holdings	EMCOR Group	242		7.0x	
Oct-10	Quanta Services	Valard Construction	224		5.5x	
Mar-10	Willbros Group	InfrastruX Group	631		9.3x	7.4x
Median				**42%**	**7.5x**	**7.7x**
Average				**43%**	**7.6x**	**7.6x**

Source: Raymond James Ltd., Capital IQ, Company Reports

Appendix C: Key Competitors

The competitive environment in telecom contracting is very fragmented, with the majority of players being small to mid-sized private companies. Many competitors are broadly in the utility contracting space, with a focus toward oil and gas pipelines or power infrastructure, with only part of their business serving telecom companies. The real fly in DIG's proverbial ointment is mom-and-pop shops with a few pieces of equipment operating as cheap subcontractors (often to larger contractors which subcontract much of their work). We note that this model is difficult to sustain, however, as the lower pricing (often savings from using a non-union workforce) is offset by higher pay to retain these employees. Below, we provide a brief overview of some of the largest competitors within the Canadian telecom contracting industry.

Aecon Utilities. Aecon Utilities is a subsidiary of Aecon Group, and offers services across Canada in telecom infrastructure, oil and gas pipeline construction, power transmission and distribution, and water and sewer construction. Aecon Utilities has approximately 1,500 major pieces of equipment. We estimate the telecom segment generates annual revenues of approximately $100-150 million.

Asplundh. Asplundh Construction, founded in 1928, is a diversified utility and telecom contractor. The firm is based out of New York state, with over 1,000 employees and operations in 14 states as well as throughout Canada.

Badger. Badger was founded in 1992 and offers hydro excavation (hydrovac) services using its proprietary Badger Hydrovac System. The firm operates throughout the US and Canada with over 1,000 hydrovac trucks.

Black & McDonald. Black & McDonald is a Toronto based contractor providing a full range of electrical, mechanical, utility and maintenance services to commercial, industrial, institutional, utility and government clients throughout Canada and in the US.

Ledcor. Ledcor is a diversified construction company based in Vancouver, BC. The communications division has over 800 employees located primarily in Western Canada and the US.

Sentrex. Sentrex is a telecom contractor based in Toronto. The firm has over 230 employees operating throughout Southern Ontario.

Somerville. Somerville is primarily a utility contractor. The firm is based in King City, Ontario and builds and maintains oil and gas pipelines, power and other utilities systems and related facilities throughout Canada. Somerville is one of three contractors to provide general telecom contract services for Expertech (a subsidiary of Bell) throughout Ontario.

Telecon. Telecon is a Montreal, QC based telecom contractor, founded in 1967, with over 2,500 employees operating throughout North America.

Trinity Communication Services. Trinity Communication Services, founded in 1990, is a telecom and utility contractor. The firm operates throughout Southern Ontario with over 100 employees.

TRJ TÉLÉCOM. TRJ TÉLÉCOM is a telecom contractor based in Montreal, QC, with over 500 employees operating throughout Quebec and Ontario.

Valard. Valard (acquired by Quanta Services in 2010) is a utility and telecom contractor. Valard services telecom infrastructure in Quebec through its subsidiary G-Tek and largely uses subcontractors for work through the rest of Canada.

Appendix D: Management & Board of Directors

Alex Agius (Co-CEO & Director). Mr. Agius has been involved with DIG since it was founded in 2006. Prior to DIG he spent 18 years with Sentrex Communications, a close competitor, where he oversaw Canadian operations and was involved in identifying and assessing US acquisitions. After leaving Sentrex, and before joining DIG fulltime in 2009, he was responsible for creating the telecom infrastructure group of Wesbell Group of Companies Inc. Mr. Agius began his career as a field tech out of school.

Joe Lanni (Co-CEO & Director). Mr. Lanni founded DIG in 2006, and between 2006 and 2007, before joining fulltime, he was responsible for setting up Wesbell's western Canadian operations. He is principally an entrepreneur, and has founded and sold several businesses over the years. Mr. Lanni has over twenty years of industry experience in general construction and utilities, and has served in several operational roles throughout his career.

Manny Bettencourt (CFO). Mr. Bettencourt joined DistinctTech as CFO in 2014. Prior to joining DIG, Mr. Bettencourt was the CFO for First Global Data Ltd., a mobile payments and remittance company. Mr. Bettencourt is a Chartered Accountant and previously served as CFO and as a Senior Executive for a number of Canadian and US IT companies including Navaho Networks, an online payments company, and AT&T Solutions Canada. Mr. Bettencourt began his career at KPMG and is a graduate of the University of Toronto.

William Nurnberger (Vice President Corporate Development & Interim CFO). Mr. Nurnberger joined DIG as VP Corporate Development at the start of 2017. Prior to joining Distinct, Mr. Nurnberger served as Vice President of Portfolio Operations for Mosaic Capital, a publicly traded private equity firm, overseeing a diversified portfolio of companies. He was also involved in a start-up civil construction firm in northern British Columbia, involved in all aspects of the energy sector, mining, windfarm development and forestry.

Michael Newman (Director). Mr. Newman founded InterRent REIT (TSX:IIP.UN), and served as President & CEO for 12 years. Prior to InterRent, he spent 25 years as an executive in the cable television and telecommunications industries in North America, having co-founded CableTel Communications in 1972, and served in a worldwide M&A capacity with Chicago based Zenith Electronics from 1992 to 1997.

Garry Wetsch (Director). Mr. Wetsch is a lawyer admitted to the Bar in Alberta in 1972, and is currently Corporate Counsel with Landrex Inc., a residential and commercial land developer. He is a founder and shareholder of a number of businesses in Western Canada. Mr. Wetsch has advised corporations in a broad area that included commercial transactions, employment law, strategic planning, international transactions and finance. He is the recipient of the Queen's Golden Jubilee Commemorative Medal for his economic development accomplishments.

Doug Horner (Director). Mr. Horner has held numerous positions with the Government of Alberta, including Deputy Premier, President of the Treasury Board, Senior Advisor to the Premier on Internal and Federal-Provincial Relations, as well as Ministerial portfolios in Finance, Advanced Education and Technology, Innovation, and Agriculture. Mr. Horner is currently the Chairman of The Canada Asia Synergy Group, a private organization focused on connecting business and investment between Canada and Asia. Mr. Horner also serves as President of Timber Wolf Investment Ltd., an advisory and consulting firm in Canada, specializing in Government relations, management advisory and international trade.

Rob Normandeau (Director). Mr. Normandeau is the President of Seafort Capital, and previously served as President & CEO of a TSX-listed investment company. Prior to that, he practiced law in the Toronto office of a major New York-based law firm, where he specialized in corporate finance and M&A. Rob was recognized in 2009 as one of Canada's Top 40 Under 40 and currently serves as a director of Canada's Venture Capital and Private Equity Association (CVCA) and Rocky Mountain Liquor Inc. (TSXV: RUM).

Appendix E: Risks

Customer Concentration Risk. Two customers represented 85% of DIG's 2016 revenues. If any of these customers should cease doing business or reduce its budget for DIG's construction and maintenance services this could materially impact DIG's financial results.

Weather Risk. Cold winter weather and wet weather does slow the pace of DIG's construction and maintenance activities, and can adversely impact Distinct's financial results (notably during the winter months).

Contract Pricing Risk. Given the competitive nature of DIG's business, should competitors offer discounts or lower pricing this may require Distinct to lower its pricing to retain its customers and/or remain competitive. This could have a detrimental impact on the company's margin profile.

Human Resources Risk. The ability of the company to hire and retain skilled personnel is a key requirement for its success. The construction industry is faced with an increasing shortage of skilled labour and upward pressure on wages. However, DIG's union status and its strong focus on employee culture mitigate some of the risk from wage competition. Additionally, a significant portion of Distinct's labour force is unionized and susceptible to labour action.

M&A Risk. Our investment thesis on DIG is predicated on the company's ability to make strategic acquisitions. There is no assurance the company will be able to find suitable target candidates and/or integrate them successfully into a consolidated business.

Financing Risk. Our investment thesis on Distinct factors in the company's ability to continue to access capital in order to finance its internal growth and make strategic acquisitions.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Aecon Group	ARE	TSX	C$	18.31	3	RJ Ltd.
Bird Construction Inc.	BDT	TSX	C$	8.46	2	RJ Ltd.
Black Diamond Group Limited	BDI	TSX	C$	2.44	2	RJ Ltd.
Clean Harbors, Inc.	CLH	NYSE	US$	48.60	3	RJ & Associates
Crown Capital Partners Inc.	CRWN	TSX	C$	9.95	2	RJ Ltd.
Emera Incorporated	EMA	TSX	C$	40.77	2	RJ Ltd.
Fortis, Inc.	FTS	TSX	C$	42.28	2	RJ Ltd.
Hydro One Ltd.	H	TSX	C$	21.21	2	RJ Ltd.
Mullen Group Ltd.	MTL	TSX	C$	15.16	3	RJ Ltd.
Stuart Olson Inc.	SOX	TSX	C$	6.90	2	RJ Ltd.
US Ecology, Inc.	ECOL	NASDAQ	US$	54.75	3	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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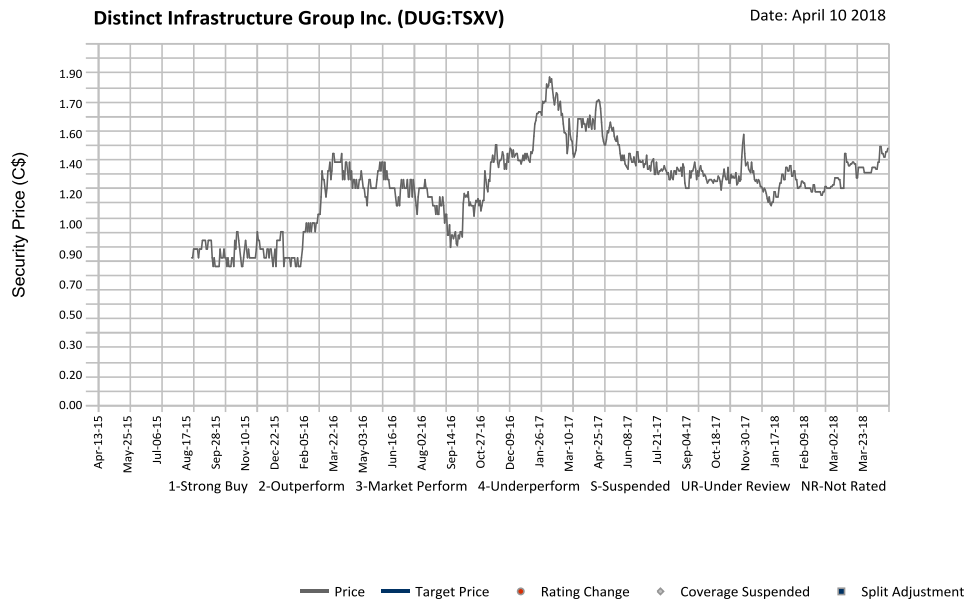

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Risks - Distinct Infrastructure Group Inc.

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