



Commercial Services

INDUSTRY UPDATE | 2H 2023





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Executive Summary

Stout is pleased to present our Commercial Services Industry Update for 2H 2023. Through our team's ongoing dialogue with leading North American and global services businesses and analysis of subsector trends and broader market health, we have summarized key takeaways below, followed by an in-depth discussion of recent industry trends, public market performance, and notable recent M&A activity.

- ❖ While M&A activity in the commercial services sector has overall remained relatively muted compared to prior periods in the second half of 2023, certain well-capitalized platforms continued to maintain an active M&A strategy, and a number of large sponsors in the space made investments in new platforms.
- ❖ Higher interest rates have persisted through the end of 2023; however, signs of an environment more conducive to higher volume deal making are developing. The Federal Reserve held rates flat for the entirety of Q4, and market expectations are that the Fed will begin cutting rates as early as Q2 2024.
- ❖ Private equity firms, which have been delaying exits since the beginning of 2022, are holding more assets that are reaching, or are beyond, their desired hold period. Further, PE firms further continue to maintain record levels of dry powder. As one avenue to accelerate deployment of capital, some firms have begun building out new theses and are opening themselves up to new subsectors they may not have previously explored.
- ❖ Expected rate cuts, aging assets, and high dry powder levels together point to the potential for increased M&A activity in 2024.

We hope that you find this report helpful and that it serves as a valuable resource to you in staying up to date on the market. We look forward to staying in touch and encourage you to contact us directly if you would like to discuss our perspectives on current market trends or potential M&A opportunities, or to discuss our relevant advisory experience.

Stout Commercial Services Experience

TRANSACTION SPOTLIGHT

examinetics

a portfolio company of

FREEDOM 3

has been acquired by

COALESCE
CAPITAL

SELL-SIDE ADVISOR

- ❖ Stout served as exclusive financial advisor to Examinetics on its sale to Coalesce Capital. Examinetics is a leading provider of workforce health solutions through mobile and on-demand technology across a range of industries.
- ❖ Examinetics attended Stout's inaugural Private Company Conference, leading to numerous preemptive discussions, before ultimately being acquired by Coalesce in August 2023.
- ❖ Read more [here](#).

Traffic Control Group

a portfolio company of

RHVCapital

has been acquired by

AWP
Safety

a portfolio company of

KOHLBERG
COMPANY

FINANCIAL ADVISOR

ambipar
CORP

has acquired

WITT O'BRIEN'S

a division of

SEACOR

a portfolio company of

AMERICAN INDUSTRIAL PARTNERS

BUY-SIDE ADVISOR

UCC
environmental

has been acquired by

CLAVIS
CAPITAL PARTNERS

SELL-SIDE ADVISOR

LEW
CORPORATION
The Environmental Company™

has been acquired by

EVOLUTION
CAPITAL PARTNERS™

SELL-SIDE ADVISOR

MELLOTT
COMPANY

has been acquired by

MFG

PNC
MEZZANINE CAPITAL

SELL-SIDE ADVISOR

HEARTLAND
HOME SERVICES

a portfolio company of

NORTH BRANCH
CAPITAL

has been acquired by

TJC
THE JORDAN COMPANY

SELL-SIDE ADVISOR

ARCLINE
INVESTMENT MANAGEMENT

has acquired

PRIDE & SERVICE
ELEVATOR

BUY-SIDE ADVISOR

pace
COMPANIES

has been acquired by

Aterian
INVESTMENT PARTNERS

SELL-SIDE ADVISOR

IDWAL

a portfolio company of

GRAIG

has been acquired by

LDC

SELL-SIDE ADVISOR

American
Civil
Constructors

a portfolio company of

Insight Equity

has been acquired by

IEA

JOINT BOOKRUNNER

HARRIS
40
QUALITY INC.

has been acquired by

HUMMER
DON HUMMER TRUCKING

SELL-SIDE ADVISOR

"GO WITH THE NAME YOU KNOW"
RANDAZZO
HEATING • COOLING • ELECTRICAL

has been acquired by

NORTH BRANCH
CAPITAL

SELL-SIDE ADVISOR




Note: Transaction experience may include work by Stout professionals while at prior firms

Commercial Services M&A Observations





While M&A activity in the space is still lower than the record highs observed in 2021, the Commercial Services industry as a whole retains attractive attributes that are allowing new platform investments to be made – in particular, minimal cyclicity and recurring/reoccurring revenue streams that are prominent themes in the industry create a compelling story to get lenders comfortable, even in a tight environment.

Further, while the high interest rate environment has led to more scrutiny of the buy-and-build strategy, key players are continuing to execute add-ons in high volume. The highly fragmented nature of many subsectors within commercial services (particularly landscaping, fire & life safety, and traffic safety) continues to aid the strategy, and we expect similar trends to continue in 2024.

Highly Active Consolidators in 2023

| |  |  |  | Includes the acquisition of RHV's traffic control group comprising four companies, expanding AWP's presence in MI, NC, SC, TX, and FL |
|-----------------------|---|---|---|---|
| Subsector: | Fire & Life Safety | Landscaping | Traffic Safety | |
| Ownership: | Altas | Apax | Kohlberg | |
| Date Acquired: | June 2021 | August 2021 | December 2020 | |
| 2023 Add-Ons: | 26+ | 12+ | 6+ | |

Notable New Sponsor-Backed Platforms in 2H 2023

| Platform | Sponsor | Commentary |
|---|---|--|
|  |  | <ul style="list-style-type: none"> In October 2023, GTCR completed the acquisition of ADT's commercial security, fire, and life safety security business Serving over 300,000 customer locations via a workforce of 5,000+, the business will operate as a standalone entity going forward and be rebranded as Everon |
|  |  | <ul style="list-style-type: none"> In December 2023, Pritzker acquired Heartland, a commercial landscaping company, from Sterling Investment Partners Sterling acquired Heartland in 2019 when it was serving five markets across the Central U.S. and, supplementing organic growth with an active M&A strategy, grew it to a footprint spanning 26 states with 4,000+ employees |
|  |  | <ul style="list-style-type: none"> In December 2023, Harvest Partners acquired Road Safety Services, a traffic safety company with a current focus on pavement marking, from Parallel49 Equity Road Safety Services, formed in 2017 by Parallel49 following their acquisition of a pavement marking company serving two Midwest states, currently serves 15 states through its six operating companies |

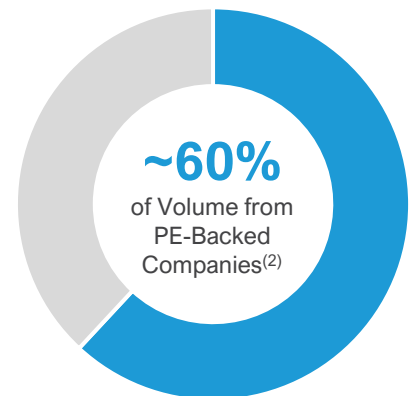
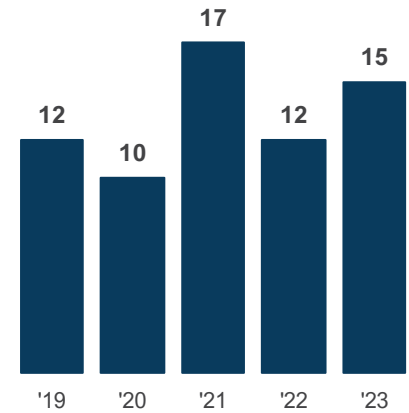
Subsector Spotlight: Janitorial Services

Characterized by highly-reoccurring, often contracted revenue streams, this fragmented industry remains attractive due to a high-level of visibility into ongoing performance. At the same time, multi-year contracts can pose a challenge to operators looking to grow organically, except for those who can differentiate themselves through service quality or offering highly specialized solutions.

- ❖ Given noted barriers to gaining market share, a buy-and-build strategy has shown to be a winning model for accelerating growth (e.g., KBS).
- ❖ Compared to the broader Commercial Services industry, the sector is relatively under-penetrated by PE – combined with the highly fragmented nature of the industry, there remains significant opportunity for new sponsor-backed consolidation.
- ❖ Janitorial services companies further present a unique opportunity for cross-trade selling, where acquisition of, or by, companies offering broader facility solutions could be attractive to targets/acquirors, as the combined company could take advantage of embedded client relationships underpinned by long-term contracts.

Transaction Volume⁽¹⁾

(# of M&A transactions closed)



Notable Strategies and Sponsor-Backed Platforms

| | | | | |
|---|---|--|--|--|
|  O2 Investment Partners (January 2023) |  Public |  Silver Oak Services (January 2016) |  Wellspring (September 2021) |  Eagle Merchant Partners (April 2022) |
|  Greenbriar (February 2022) |  Nautic (May 2020) |  Cerberus (October 2019) |  Private |  Stadion Capital |
|  Littlejohn (October 2021) |  Westbridge Capital (March 2020) |  Roark (September 2020) |  Gen Cap America (August 2020) |  Angeles (June 2021) |

Source: S&P Capital IQ, Stout Proprietary Database; (1) Reflects North American transactions; (2) Based on current ownership

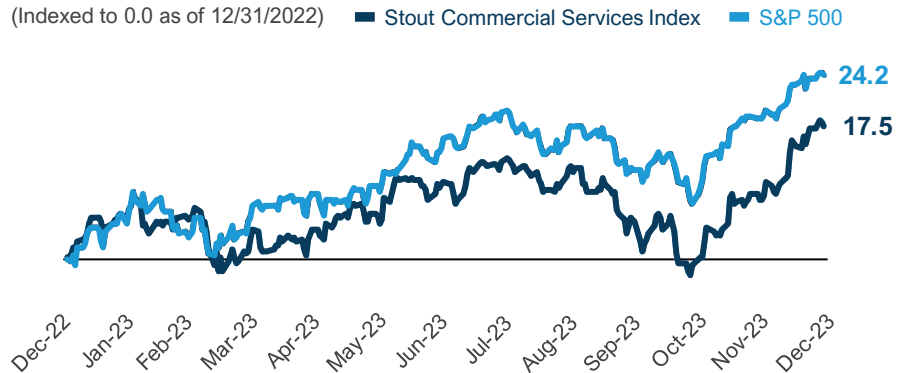
Public Markets Performance

In 2023, U.S. public equities experienced meaningful divergence in performance across sectors while overall exhibiting relatively low volatility. The S&P 500 Index was ultimately up 24.2% over the last 12 months, reaching its 52-week peak in December.

In the latest FOMC meeting in January, the Fed left its target for the Federal Funds Rate at 5.25%-5.50%, marking the fourth straight meeting without an increase. While timing is uncertain and various factors could alter course, expectations, based on the CME FedWatch Tool, are that 2024 could see 75-125 bps of rate cuts, beginning with a first cut in May.

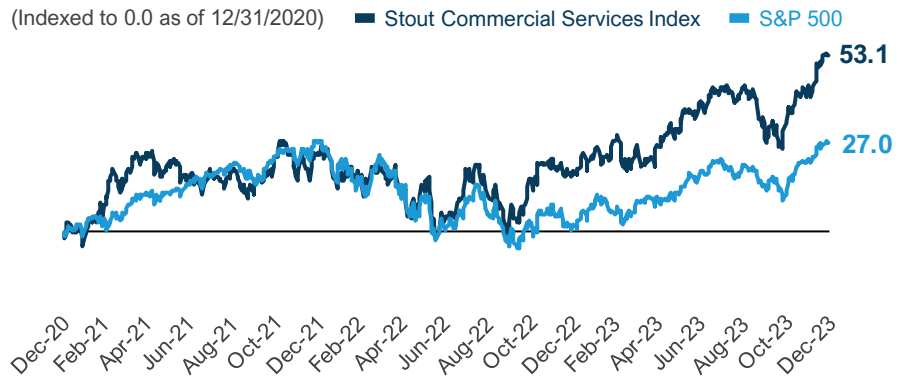
The Stout Commercial Services Index is a proprietary, market cap-weighted composite stock index comprised of top public companies across a range of commercial services verticals. Since December of 2020, the Stout Index has outperformed the S&P 500, up 53.1% in the last three years compared to 27.0% for the S&P 500 Index.

Indexed Stock Price Performance — Last 12 Months



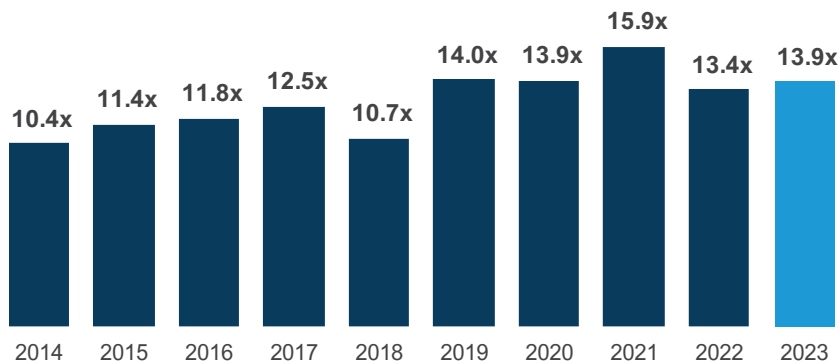
Source: S&P Capital IQ, Stout Proprietary Index

Indexed Stock Price Performance — Last Three Years



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



Source: S&P Capital IQ, Stout Proprietary Index

While elevated interest rates and cost of capital increases held valuations for the broad market below peaks observed in 2021, publicly traded commercial services companies saw an uptick in valuation this year, ending the year above the levels observed in December 2022.

As of Q4 2023, the median EV/LTM EBITDA multiple for the Stout Commercial Services Index was 13.9x, up from 13.4x in Q4 2022.

Public Markets Performance (cont.)

Stout Commercial Services Index Stock Performance Data

| Company Name | Ticker | Share Price | | Ent. Value | Revenue | EBITDA Margin | EV / Rev | | EV / EBITDA | |
|---------------------------------------|---------------|-------------|--------------|-----------------|----------------|---------------|-------------|--------------|--------------|--|
| | | 12/31/23 | % 52 High | | | | LTM | LTM | NTM | |
| ABM Industries Incorporated | NYSE:ABM | \$44.83 | 84.5% | \$4,205 | \$8,096 | 5.7% | 0.5x | 9.1x | 8.5x | |
| APi Group Corporation | NYSE:APG | 34.60 | 99.1 | 11,329 | 6,872 | 10.7 | 1.6 | 15.4 | 13.3 | |
| Aramark | NYSE:ARMK | 28.10 | 61.5 | 13,931 | 18,854 | 8.1 | 0.7 | 9.1 | 11.0 | |
| BrightView Holdings, Inc. | NYSE:BV | 8.42 | 91.9 | 2,243 | 2,816 | 9.1 | 0.8 | 8.7 | 7.0 | |
| Cintas Corporation | NasdaqGS:CTAS | 602.66 | 99.2 | 64,560 | 9,194 | 24.1 | 7.0 | 29.1 | 25.2 | |
| Comfort Systems USA, Inc. | NYSE:FIX | 205.67 | 97.2 | 7,449 | 4,966 | 9.0 | 1.5 | 16.6 | 14.8 | |
| Compass Group PLC | LSE:CPG | 27.33 | 95.4 | 51,154 | 37,864 | 7.6 | 1.4 | 17.9 | 12.4 | |
| GDI Integrated Facility Services Inc. | TSX:GDI | 27.70 | 73.2 | 978 | 1,776 | 5.5 | 0.6 | 9.9 | 8.1 | |
| ISS A/S | CPSE:ISS | 19.12 | 80.1 | 5,540 | 11,617 | 4.1 | 0.5 | 11.7 | 6.9 | |
| McGrath RentCorp | NasdaqGS:MGRC | 119.62 | 97.4 | 3,607 | 891 | 24.2 | 4.0 | 16.7 | 11.1 | |
| Rentokil Initial plc | LSE:RTO | 5.61 | 66.4 | 18,307 | 6,116 | 19.1 | 3.0 | 15.6 | 11.2 | |
| Securitas AB (publ) | OM: SECU B | 9.80 | 93.1 | 9,686 | 14,297 | 7.5 | 0.7 | 9.0 | 6.6 | |
| Sodexo S.A. | ENXTPA:SW | 110.11 | 95.5 | 20,902 | 24,552 | 5.2 | 0.9 | 16.4 | 12.6 | |
| The Brink's Company | NYSE:BCO | 87.95 | 97.6 | 6,820 | 4,820 | 16.1 | 1.4 | 8.8 | 7.2 | |
| UniFirst Corporation | NYSE:UNF | 182.91 | 89.0 | 3,410 | 2,285 | 12.0 | 1.5 | 12.4 | 10.6 | |
| WillScot Mobile Mini Holdings Corp. | NasdaqCM:WSC | 44.50 | 83.2 | 12,277 | 2,343 | 29.7 | 5.2 | 17.7 | 10.9 | |
| Median | | | 92.5% | \$8,567 | \$6,494 | 9.1% | 1.4x | 13.9x | 10.9x | |
| Mean | | | 87.8% | \$14,775 | \$9,835 | 12.4% | 2.0x | 14.0x | 11.1x | |

Note: \$ in millions, except share price; Enterprise Value ("EV") equals Market Value plus straight/convertible debt, preferred stock, minority interest, less cash and short-term investments

Source: S&P Capital IQ as of 1/29/2024

M&A Transaction Highlights

| Date | Acquiror (Ownership) | Target (Seller) | Subsector |
|--------|--|--|----------------------------------|
| Dec-23 | Ruppert Landscape (Knox Lane) | The Tree Amigos Outdoor Services | Landscaping & Grounds |
| Dec-23 | Elevator Service (Carroll Capital) | Allrise Elevator Company | Operations, Maintenance & Repair |
| Dec-23 | Barefoot Mosquito and Pest Control (Incline) | Bob Jenkins Pest Control | Field & Route Based Services |
| Dec-23 | Pye-Barker Fire & Safety (Altas) | AFS LEWIS | Fire & Life Safety |
| Dec-23 | Pritzker Private Capital | Heartland (Sterling Investment Partners) | Landscaping & Grounds |
| Dec-23 | Harvest Partners | Road Safety Services (Parallel49 Equity) | Field & Route Based Services |
| Dec-23 | Valcourt Building Services (Littlejohn) | Awnclean | Field & Route Based Services |
| Dec-23 | SavATree (Apax) | Arborscapes, et al. | Landscaping & Grounds |
| Dec-23 | CertaSite (Riverside) | Copp Systems Incorporated | Fire & Life Safety |
| Dec-23 | Allied Universal Security Services (Warburg, et al.) | Dansk Enterprises | Security |
| Dec-23 | Kept Companies (ACON, DFW) | EcoSweep | Field & Route Based Services |
| Dec-23 | 4M Building Solutions (O2 Investment Partners) | Buttweiler Environmental | Janitorial |
| Dec-23 | Pritchard Industries (Littlejohn) | ACP Facility Services | Janitorial |
| Nov-23 | Pye-Barker Fire & Safety (Altas) | S&S Sprinkler Company | Fire & Life Safety |
| Nov-23 | Sciens (Carlyle) | Bass-United Fire & Security Systems | Fire & Life Safety |
| Nov-23 | Crete Mechanical Group (Ridgemont) | C&C Service | Operations, Maintenance & Repair |
| Nov-23 | Rapid Fire Safety & Security (Concentric Equity) | California State Fire Protection | Fire & Life Safety |
| Nov-23 | Kept Companies (ACON, DFW) | Pressure Pros | Field & Route Based Services |
| Nov-23 | Propark (ABRY) | Atlantic Parking | Field & Route Based Services |
| Oct-23 | Security 1010 (Gemspring) | Advance Security Integration | Security |
| Oct-23 | Aruza (Concentric Equity) | Anthem Pest Control TX/SC Operations | Field & Route Based Services |
| Oct-23 | Thompson Street | Live Oak Pest Control | Field & Route Based Services |
| Oct-23 | Cintas Corporation (NasdaqGS:CTAS) | Rental Uniform Service | Field & Route Based Services |
| Oct-23 | Senske (GTCR) | Ace of Blades | Landscaping & Grounds |
| Oct-23 | Verde Equity Partners | Steven Smith Landscape | Landscaping & Grounds |

Source: S&P Capital IQ, Stout Proprietary Database

M&A Transaction Highlights (cont.)

| Date | Acquiror (Ownership) | Target (Seller) | Subsector |
|--------|---|---|----------------------------------|
| Sep-23 | Verde Equity Partners | Juniper Landscape Company | Landscaping & Grounds |
| Sep-23 | Propark (ABRY) | California Parking Company | Field & Route Based Services |
| Sep-23 | CenterOak | Guardian Access Solutions | Security |
| Sep-23 | Thermogenics (Audax) | Cody Corporation | Operations, Maintenance & Repair |
| Aug-23 | Shoreline Equity Partners | American Landscaping Partners | Landscaping & Grounds |
| Aug-23 | Leap Partners (Concentric Equity) | Semones Heating & Air | Operations, Maintenance & Repair |
| Aug-23 | W.A. Kendall & Co. (Sterling Investment Partners) | Tom's Tree Service | Landscaping & Grounds |
| Aug-23 | Tech24 (HCI, Vestar) | Pronto Repairs | Food & Beverage Services |
| Aug-23 | GTCR | Everon (ADT) | Fire & Life Safety |
| Aug-23 | Tendit Group (Osceola) | Precision Asphalt Maintenance | Field & Route Based Services |
| Aug-23 | AWP (Kohlberg) | Arrive Alive Traffic Control et al. (RHV) | Field & Route Based Services |
| Aug-23 | HCI Equity Partners | Ritenour Custom Lawn Care | Landscaping & Grounds |
| Aug-23 | AWP (Kohlberg) | Texas Traffic and Barricade | Field & Route Based Services |
| Aug-23 | The Hiller Companies (Littlejohn) | Fire Defense Services | Fire & Life Safety |
| Aug-23 | Keystone Capital | Identiti | Field & Route Based Services |
| Aug-23 | CoolSys (Ares) | Lima Company | Operations, Maintenance & Repair |
| Aug-23 | Endeavor Fire Protection (Building Industry Partners) | High Sierra Fire Protection | Fire & Life Safety |
| Jul-23 | Any Hour (Knox Lane) | Black Diamond Experts | Operations, Maintenance & Repair |
| Jul-23 | Tendit Group (Osceola) | Cam Services | Field & Route Based Services |
| Jul-23 | Pavion Corp (Wind Point) | K&J Integrated Systems | Fire & Life Safety |
| Jul-23 | PestCo Holdings (Thompson Street) | 5 Star Pest Solutions | Field & Route Based Services |
| Jul-23 | NextGen Security (Dunes Point) | ISO Network | Security |
| Jul-23 | Senske (GTCR) | National Turf Service | Landscaping & Grounds |
| Jul-23 | P3 Services (Stelllex) | Anchor Plumbing Services | Field & Route Based Services |
| Jul-23 | Greenbriar | Towne Park (TA Associates) | Field & Route Based Services |

Source: S&P Capital IQ, Stout Proprietary Database

Practice Overview

The Stout Commercial Services group leverages deep advisory experience and expertise as well as dedicated coverage across a range of business models and key industry subsectors. The team additionally maintains strong, tenured relationships with the most relevant strategic consolidators and private equity investors in addition to a long track record of success advising commercial services businesses in the middle market.

SPECIALIZED COVERAGE OF KEY SUBSECTORS



Field & Route Based Services



Fire & Life Safety Services



Food & Beverage Services



Janitorial Services



Landscaping & Grounds Services



Operations, Maintenance & Repair



Rental Services & Equipment



Safety, Inspection & Compliance



Security Services

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