



Engineering & Construction

INDUSTRY UPDATE | 1H 2023





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Insights and Observations

Stout is pleased to present our Engineering and Construction Industry Update for the first half of 2023. Through our team's ongoing dialogue with top industry participants and analysis of subsector performance, we have outlined key takeaways below:

The first half of 2023 saw a decline in overall M&A activity in the engineering and construction sector. This was driven by:

- ❖ Uncertainty in the economy at the beginning of the year
- ❖ Rising inflation that put pressure on material costs, impacting project profitability
- ❖ Higher interest rates and lender tightening that moved some financial buyers to the sidelines
- ❖ A lack of exits by financial sponsors

A pickup in activity offset these trends in Q2 for engineering services companies focused on infrastructure (water and transportation primarily), contractors in the utility/fiber sectors, and facility services firms that provide steady revenues and cashflows. Underpinning the spike in activity for these segments are:

- ❖ Significant government programs, including the Infrastructure Investment and Jobs Act, CHIPS Act, and Inflation Reduction Act
- ❖ The need for upgrades to core infrastructure, resiliency planning, and decarbonization/electrification spending
- ❖ Technology-driven advances in productivity and time-to-delivery for engineering and design-build services

As strategic players in the sector continue to seek growth and diversification opportunities and financial buyers recalibrate their return models in the current higher interest rate environment, we believe M&A activity in specific segments of the industry will remain robust for the remainder of 2023 and into 2024.

Macroeconomic Update

RECENT MACRO PERFORMANCE

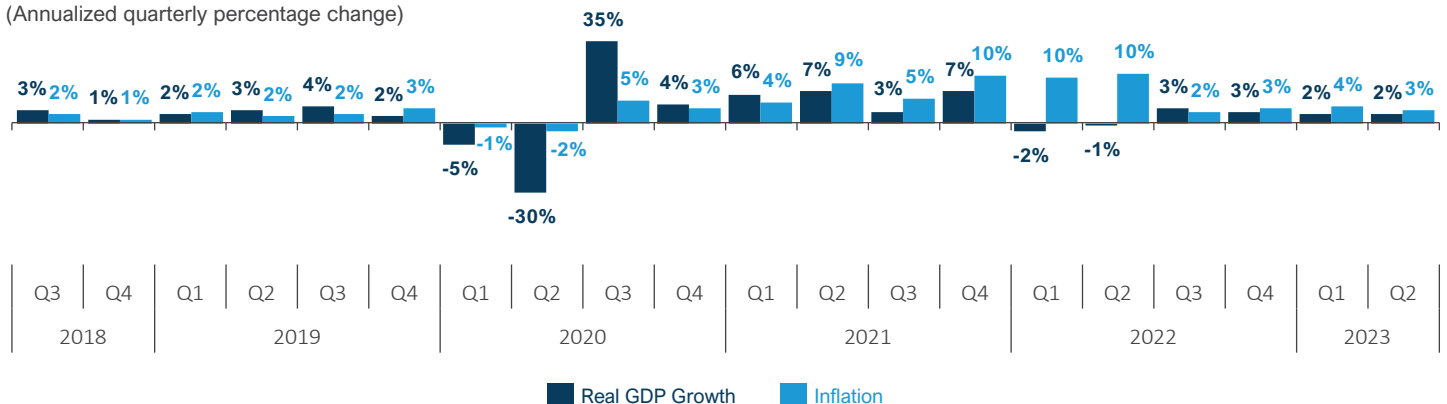
Despite significant market uncertainty, the U.S. economy has exhibited resilience, with major macroeconomic indicators stabilizing. The unemployment rate remains low at 3.6%, with consumer confidence above long-term averages. Real U.S. GDP grew 2%, marking a notable recovery from previous downturns in 1H 2022.

Inflation has shown signs of cooling, largely due to the Federal Reserve consistently raising interest rates throughout 1H 2023, resulting in a federal funds rate of 5.1%. This strategy, aimed at economic stabilization, is having an impact as equity markets have rebounded, and the Fed appears to be nearing the end of its rate-hike cycle.

While the labor market remains relatively tight, wage growth has slowed as material and other input costs have moderated, providing relief for U.S. manufacturers. On the demand side, market participants experienced slower than expected demand in 1H 2023, yet optimism prevails for a more robust second half of the year. In the broader landscape, reshoring continues to be a focus given ongoing geopolitical concerns.

Real GDP Growth and Inflation

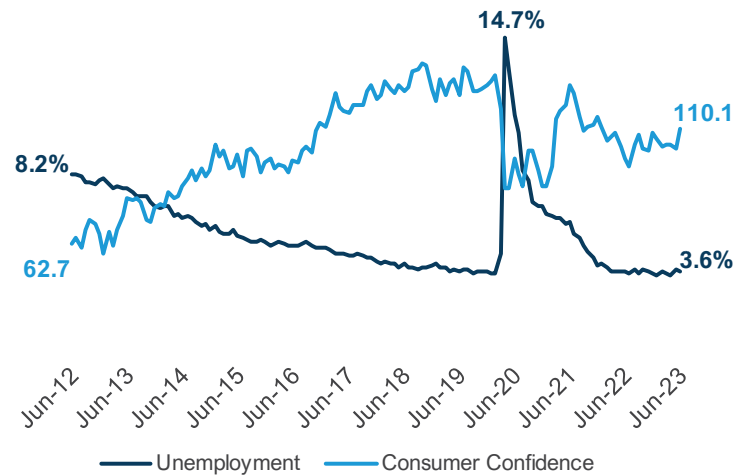
(Annualized quarterly percentage change)



Source: FRED Economic Data; Bureau of Economic Analysis

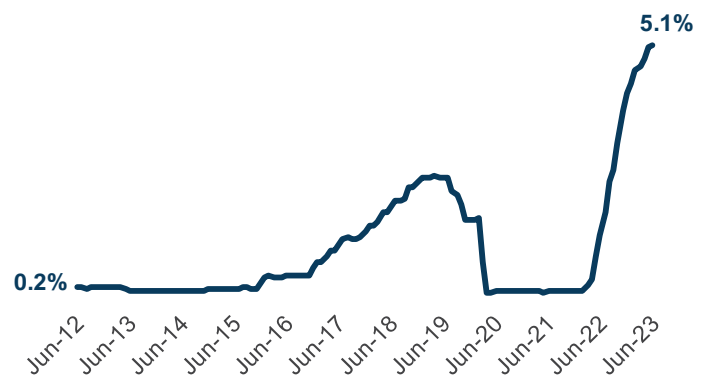
Unemployment and Consumer Confidence

(Percentage of unemployed persons in the U.S. labor force)
(Index of consumer sentiment; long-term average = 100)



Source: Bureau of Labor Statistics; University of Michigan Consumer Confidence Report

Federal Funds Effective Rate



Source: Board of Governors of the Federal Reserve System

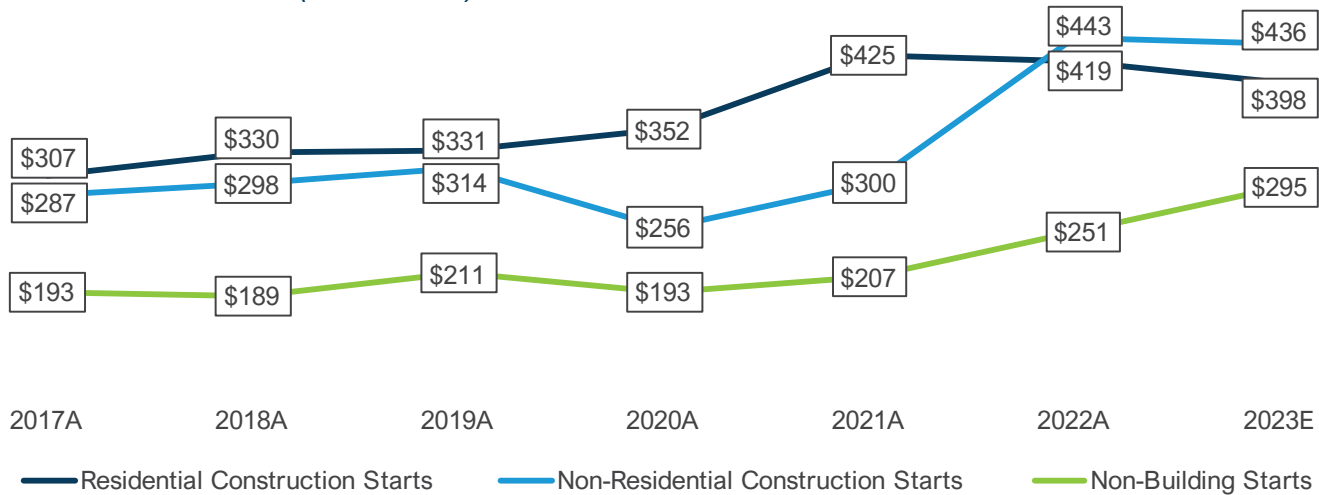
Macroeconomic Update

CONSTRUCTION STARTS AND MATERIAL COST TRENDS

As of June 2023, total construction starts are expected to see a year-over-year increase of 2% from 2022A to 2023E, as the slowdown in U.S. economic growth and much tighter lending standards will weigh on the construction industry. Non-building starts are forecasted to increase by 17%, as government infrastructure spend will continue to bolster the sector, while non-residential and residential starts are set to slip by 2% and 5%, respectfully.

Crude oil prices have experienced a consistent decline since June 2022, as demand has faltered due to further interest rate hikes and slow economic growth. The construction materials PPI remained largely consistent over the June 2023 LTM period, with a slight decrease year over year.

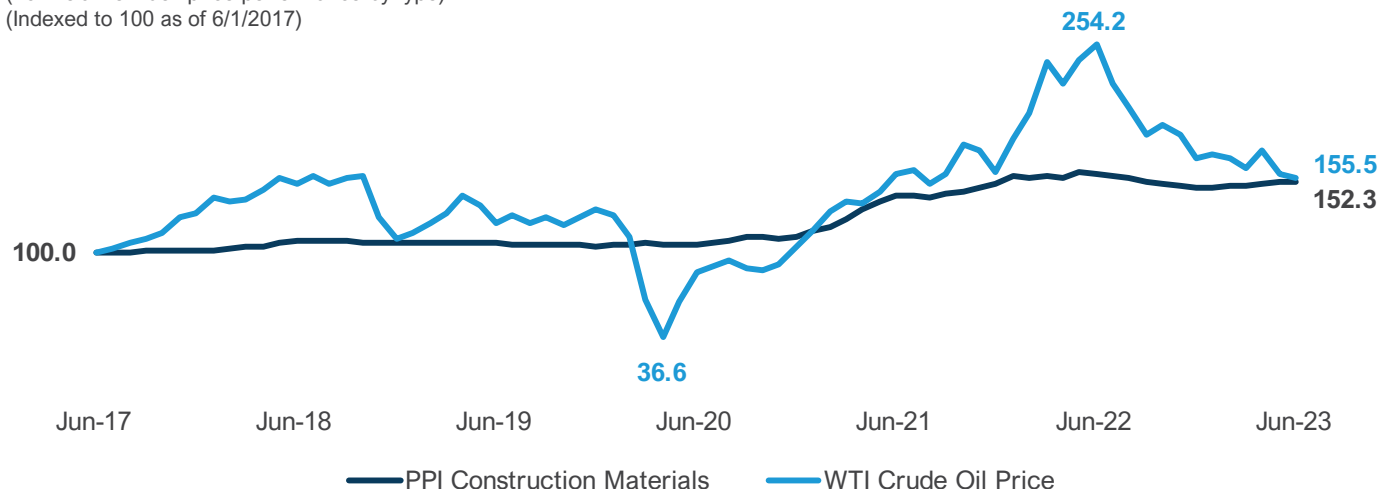
Construction Starts (\$ in billions)



Source: Dodge Construction Network; 2023E forecast as of June 2023

Construction Materials Producer Price Index Versus Crude Oil Price

(L6Y relative index price performance by type)
(Indexed to 100 as of 6/1/2017)



Source: U.S. Bureau of Labor Statistics; U.S. Energy Information Administration

Public E&C Company EBITDA Multiple Trends

INDUSTRY INDEXES

Engineering Services



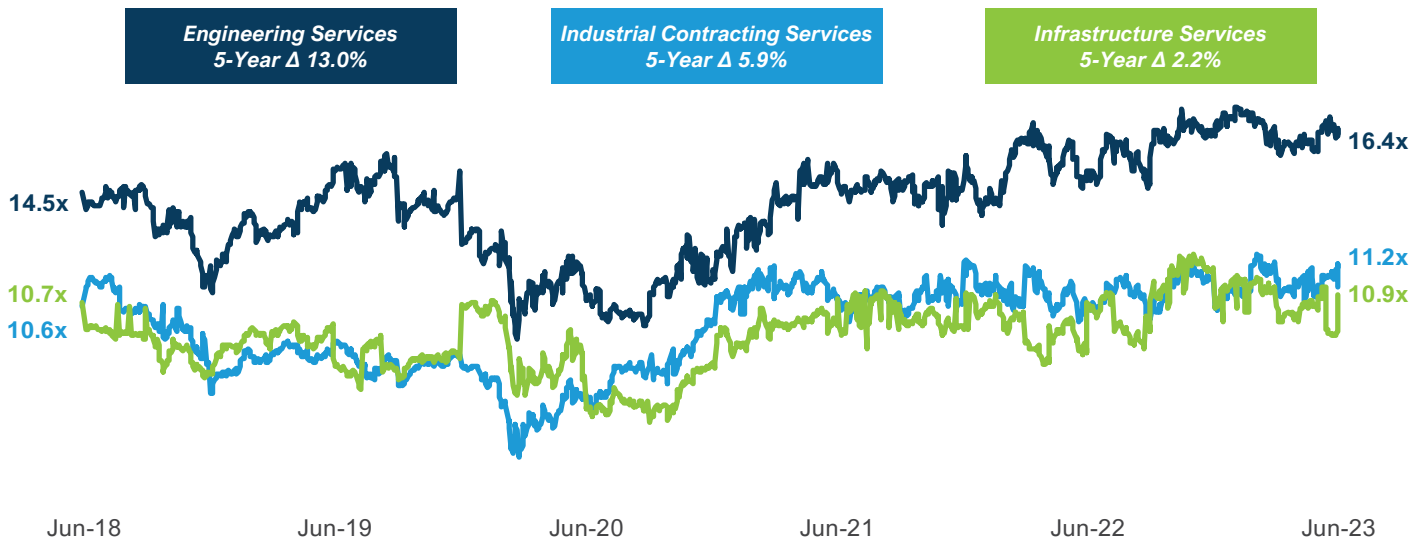
Industrial Contracting Services



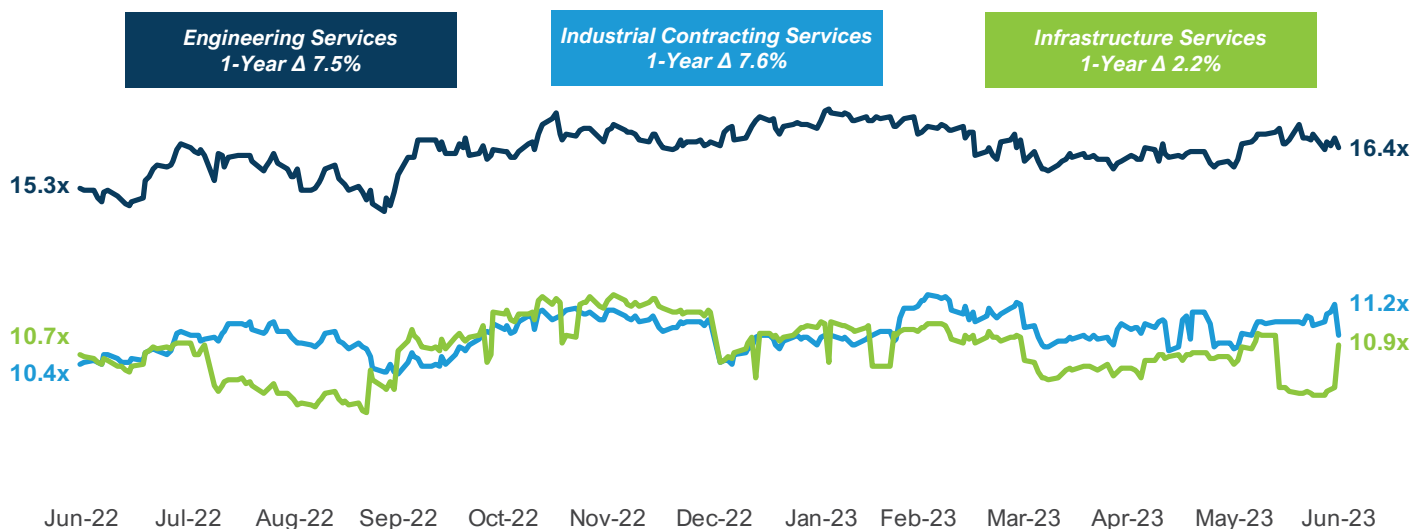
Infrastructure Services



5-YEAR HISTORICAL ENTERPRISE VALUE / LTM EBITDA MULTIPLES



1-YEAR HISTORICAL ENTERPRISE VALUE / LTM EBITDA MULTIPLES

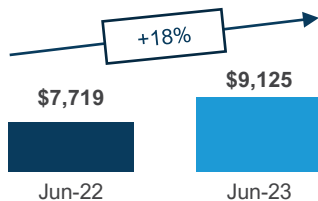
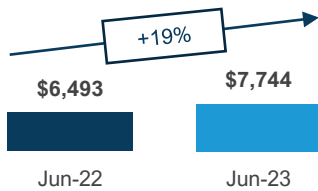
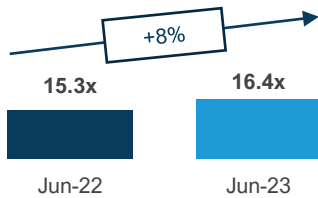
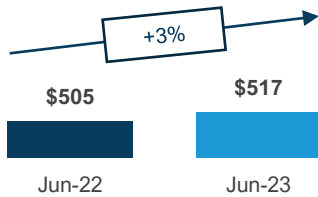


Source: S&P Capital IQ and Stout Proprietary Database

Public E&C Company Year-Over-Year Changes

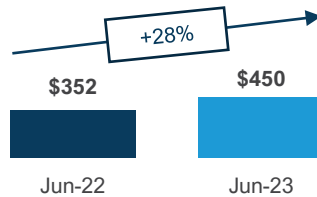
Average EV / LTM EBITDA increased year over year for engineering services, infrastructure services, and industrial contracting firms. However, although valuation metrics increased for all sectors, the infrastructure services index saw decreases in both EBITDA and EBITDA margins. Although demand in the infrastructure sector remains high, the decrease in profitability can likely be attributed to global supply chain challenges and rising inflation putting pressure on material costs.

Engineering Services

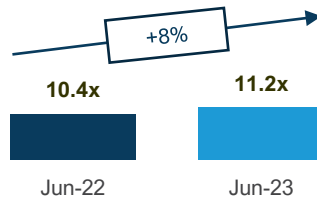


Industrial Contracting Services

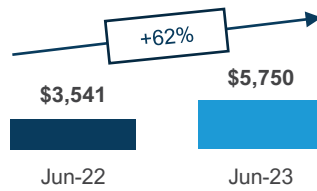
Average LTM EBITDA



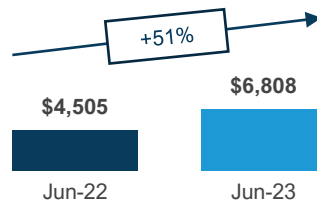
Average EV / LTM EBITDA



Average Market Cap

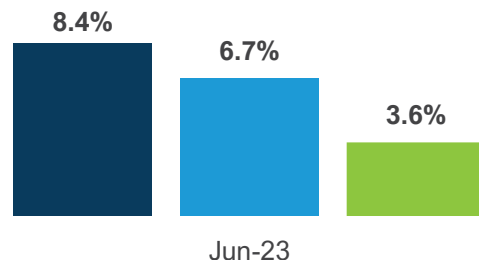
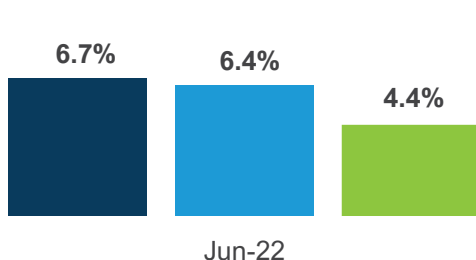


Average Enterprise Value

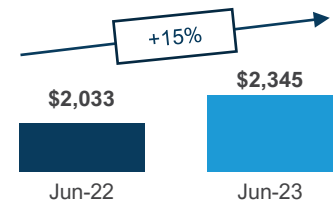
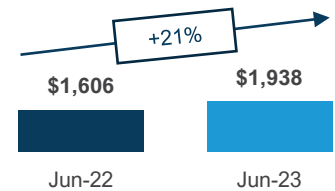
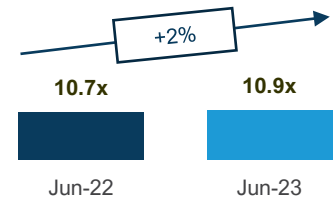
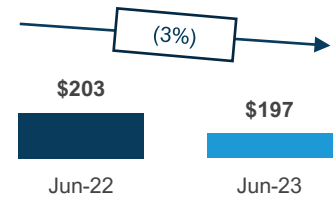


LTM EBITDA Margin

Engineering Services Industrial Contracting Services Infrastructure Services



Infrastructure Services



Source: S&P Capital IQ and Stout Proprietary Database

Transaction Highlights

ENGINEERING SERVICES

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Jun-23	American Engineers, Inc.	Infrastructure Engineering	STV Group (The Pritzker Organization)
Jun-23	Doucet & Associates	Land Development / Geospatial / Public Works	The Kleinfelder Group (Wind Point Partners)
Apr-23	Tower Engineering Professionals (Prairie Capital)	Telecommunication Engineering	H.I.G. Capital
Mar-23	Faulkner Engineering Services	Testing & Inspection / Geotechnical / Environmental	Universal Engineering Sciences (BDT Capital Partners, Palm Beach Capital)
Mar-23	Caron Architecture LLC	Residential / Hotel / Commercial Architecture	AXIS/GFA Architecture + Design
Mar-23	Gaudet Associates	Construction & Environmental Services	NV5 Global, Inc.
Feb-23	Axim Geospatial	Geospatial Services	NV5 Global, Inc.
Feb-23	Diversified Consulting Services	Construction Inspection / Surveying	NV5 Global, Inc.
Feb-23	Equity Environmental Engineering	Environmental Engineering & Consulting	GZA GeoEnvironmental
Jan-23	Gannett Fleming	Energy / Transportation / Water Resources	OceanSound Partners

Source: S&P Capital IQ and Stout Proprietary Database

Transaction Highlights

CONSTRUCTION AND INDUSTRIAL SERVICES

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Jun-23	South Shore Building Services	Window Cleaning Services	Valcourt (Littlejohn)
Jun-23	AXIS GeoSpatial	Mapping Services	SAM Companies (Peak Rock Capital)
Jun-23	Standard Pipe Services	Storm & Sanitary Sewer Pipe Repair	Aegion Corporation (New Mountain Capital)
Jun-23	Arrow Plumbing	Full-Service Plumbing	Rush Street Ventures
May-23	Mammoth Restoration Contractors	Energy Restoration Contractor	BluSky Restoration Contractors (Partners Group, Kohlberg & Company)
May-23	Infraspec Services, Inc.	Water-Related Services	Aegion Corporation (New Mountain Capital)
Mar-23	Aecon Transportation East Business (Aecon Group)	Roadbuilding / Aggregates / Materials	Green Infrastructure Partners
Feb-23	Brothers National LLC	Asphalt Paving / Concrete Contractor	Pave America (Trivest Partners)
Feb-23	McKee Utility Contractors	Utility Contractor	Boyne Capital
Feb-23	Turnaround and Maintenance Business (Worley Ltd.)	Maintenance & Turnaround Services	CAM Industrial Solutions (Cross Rapids Capital, The Baupost Group)
Feb-23	Macro Companies	Oil & Gas Facility Services	The Lemoine Company (Bernhard Capital Partners)
Feb-23	Global E&C	EPC Energy Services	SCF Partners LP
Feb-23	Bolttech Mannings, Inc.	Bolting / Machining / Mechanical Services	Taurus Industrial Group (SCF Partners)
Jan-23	Davis-Pickering Co. Contractors	Maintenance / Munitions / Government Services	Day & Zimmermann

Source: S&P Capital IQ and Stout Proprietary Database

Recent Stout Transaction Spotlight



Stout Advises UCC Environmental on the Sale to Clavis Capital Partners & Green Hills Partners

CLIENT PROFILE

- ❖ Headquartered in Waukegan, IL, UCC Environmental is a provider of precision-engineered, turnkey environmental solutions for power generation and industrial applications worldwide
- ❖ Key solutions include process solids handling, air pollution control systems, and industrial wastewater solutions

BUYER PROFILES

- ❖ Clavis Capital Partners, founded in 2013 and headquartered in Dallas, TX, is a private equity firm focused on control investments in the industrial sector
- ❖ Green Hills Partners is a private investment platform based in Nashville, TN

PROCESS SUMMARY AND OUTCOME

- ❖ Serving as the financial advisor to UCC Environmental, Stout ran a broad process generating interest from both strategic and financial sponsors
- ❖ The process ultimately led to a successful sale to Clavis Capital Partners and Green Hills Partners in April 2022

Stout E&C Investment Banking Team

ABOUT

For more than 30 years, Stout has exclusively focused on serving the unique M&A transaction advisory needs of middle-market clients. Our firm is a trusted advisor to leading organizations due to our deep industry knowledge, senior-level attention, process expertise, and relentless focus on delivering unparalleled results.

The Stout Engineering and Construction team has deep experience and expertise across numerous industry subsectors, processes, and end markets.

FOCUS AREAS



Subsector Coverage Areas



- Architecture & Engineering
- Construction/Program Management
- Facilities Services
- General/Specialty Contracting
- Industrial Services
- Test & Measurement Services
- Utility Services



End Markets




- Buildings
- Energy
- Facilities
- Infrastructure
- Manufacturing
- Utilities


SELECT TRANSACTIONS



has been acquired by

SELL-SIDE ADVISOR




has been acquired by

SELL-SIDE ADVISOR




The integrity maintenance platform of EMS USA, Inc., has been acquired by

SELL-SIDE ADVISOR




has been acquired by

a portfolio company of

SELL-SIDE ADVISOR


Hill International
has completed a \$165,000,000 refinancing of senior debt facilities
FINANCIAL ADVISOR


The Heavy Civil division of Layne has been acquired by Management and other investors
SELL-SIDE ADVISOR


has merged with

SELL-SIDE ADVISOR


has acquired

BUY-SIDE ADVISOR


has been acquired by

SELL-SIDE ADVISOR

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