



Engineering & Construction Services

ANNUAL UPDATE | 2023





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Insights and Observations

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

While the first half of 2023 saw a decline in overall M&A activity in the E&C sector as described in our prior newsletter, the second half saw a slight increase in several key segments. This was driven by:

- ❖ Strong activity in engineering services from strategic and hybrid (financial sponsor-owned firms), especially in the transportation and power generation sectors
- ❖ Environmental services / underground utilities attracting buyer interest
- ❖ The realization that an expected recession was not going to occur
- ❖ Lending markets reopening toward the end of the year and firms becoming used to a "new normal" level of higher interest rates

2024 has started strong, with pitch activity and discussions increasing compared to the first quarter of 2023 with strategic and sponsor-owned companies. We expect there to be many assets coming to market before the third quarter, driven by:

- ❖ Significant dry powder among financial buyers, especially for larger assets, as 2023 was slow in this segment
- ❖ Robust lender appetite to put capital to work. Leverage multiples are still conservative in the sector, but credit terms have eased based on recent leverage reads
- ❖ Financial sponsors looking to monetize assets they otherwise would have exited last year
- ❖ Potential unease around the November elections that caused tension among buyers in 2020

In summary, M&A in the sector remains strong in several key end markets, and 2024 should be a robust year compared to 2023, especially ahead of the fourth quarter.

Macroeconomic Update

RECENT MACRO PERFORMANCE

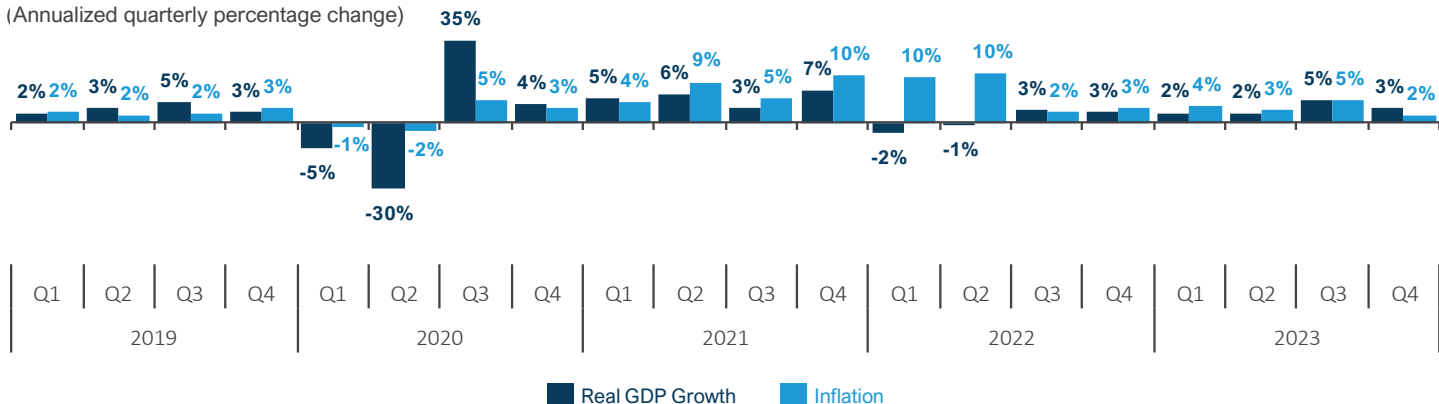
Despite significant market uncertainty, the U.S. economy has exhibited resilience, with major macroeconomic indicators stabilizing in 2023. The unemployment rate remains low at 3.7%, with consumer confidence above long-term averages. Real U.S. GDP grew 5% and 3% in Q3 and Q4, respectively, marking six consecutive quarters of growth dating back to Q2 of 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 5.3%. This strategy, aimed at economic stabilization, has significantly slowed in 2H 2023, however. The Fed has not raised rates since July 2023 and appears to be nearing the end of its rate-hike cycle.

The labor market remains relatively tight, as attracting skilled workers continues to be a challenge for industry incumbents. On the demand side, market participants experienced slower than expected demand in 2023, yet optimism prevails for a more robust 2024. In the broader landscape, reshoring continues to be a focus given ongoing geopolitical concerns.

Real GDP Growth and Inflation

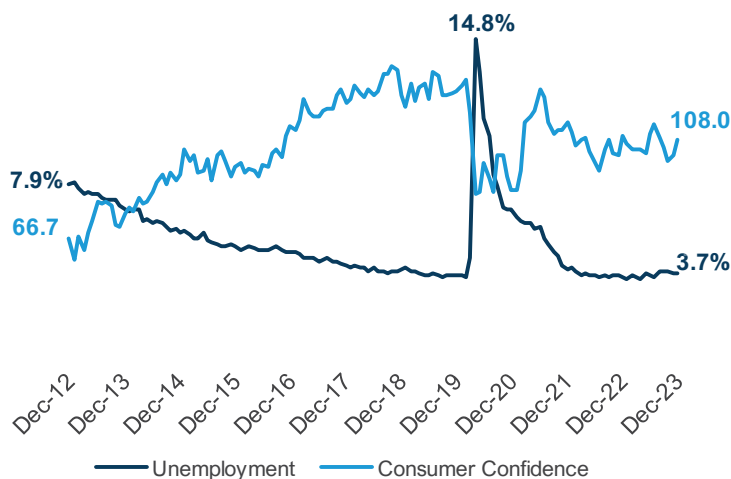
(Annualized quarterly percentage change)



Source: FRED Economic Data; Bureau of Economic Analysis

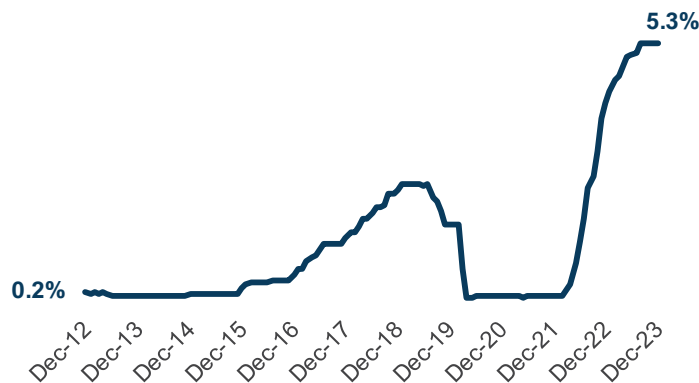
Unemployment and Consumer Confidence

(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

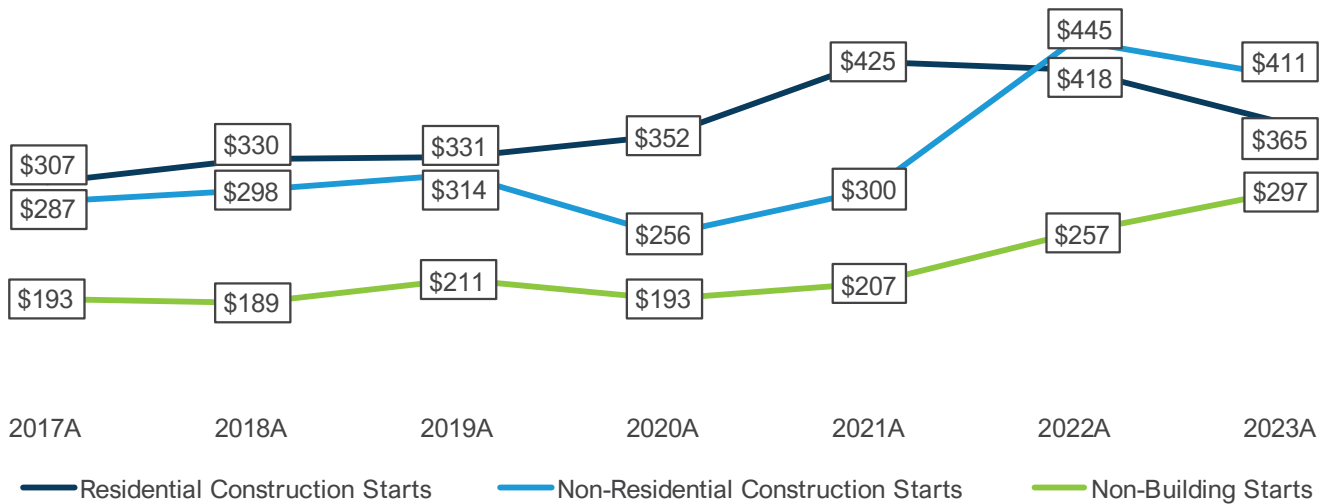
Macroeconomic Update

CONSTRUCTION STARTS AND MATERIAL COST TRENDS

Total construction starts decreased by 4% from 2022 to 2023, as stricter lending standards and a tight labor market have weighed on the construction industry. Non-building starts were the bright spot of the year, boasting an increase of 16%, as government infrastructure spend continues to bolster the sector. Conversely, non-residential and residential starts slipped by 8% and 13%, respectively.

Crude oil prices have experienced a consistent decline since June 2022, as demand has faltered due to further interest rate hikes and other macroeconomic factors. The construction materials PPI remained largely consistent in 2023, with a marginal increase year-over-year.

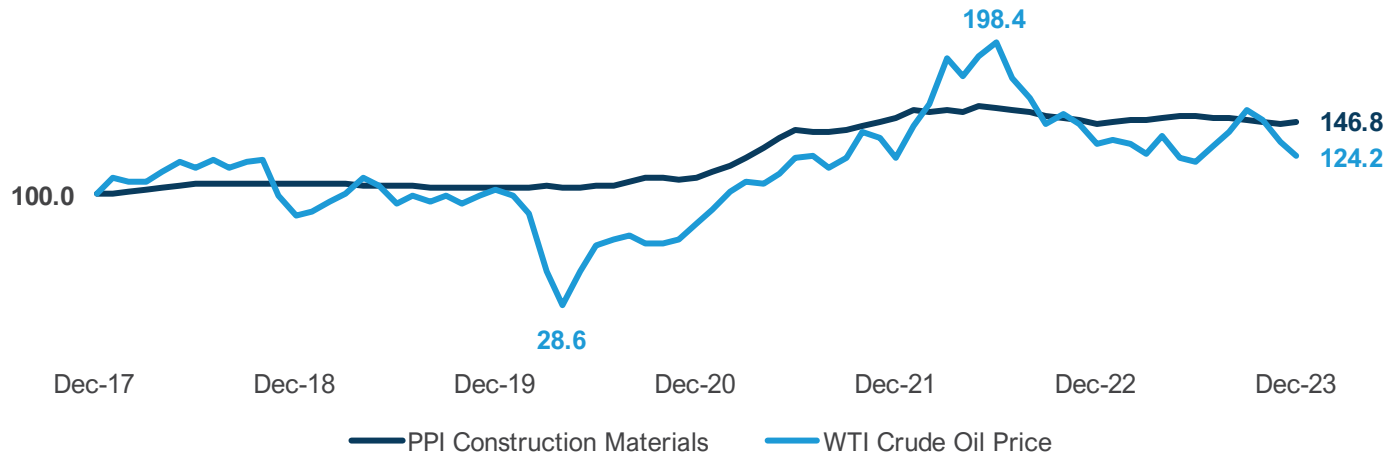
Construction Starts (\$ in billions)



Source: Dodge Construction Network

Construction Materials Producer Price Index Versus Crude Oil Price

(L6Y relative index price performance by type)
(Indexed to 100 as of 12/1/2017)



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

Public E&C Company EBITDA Multiple Trends

INDUSTRY INDEXES

Engineering Services



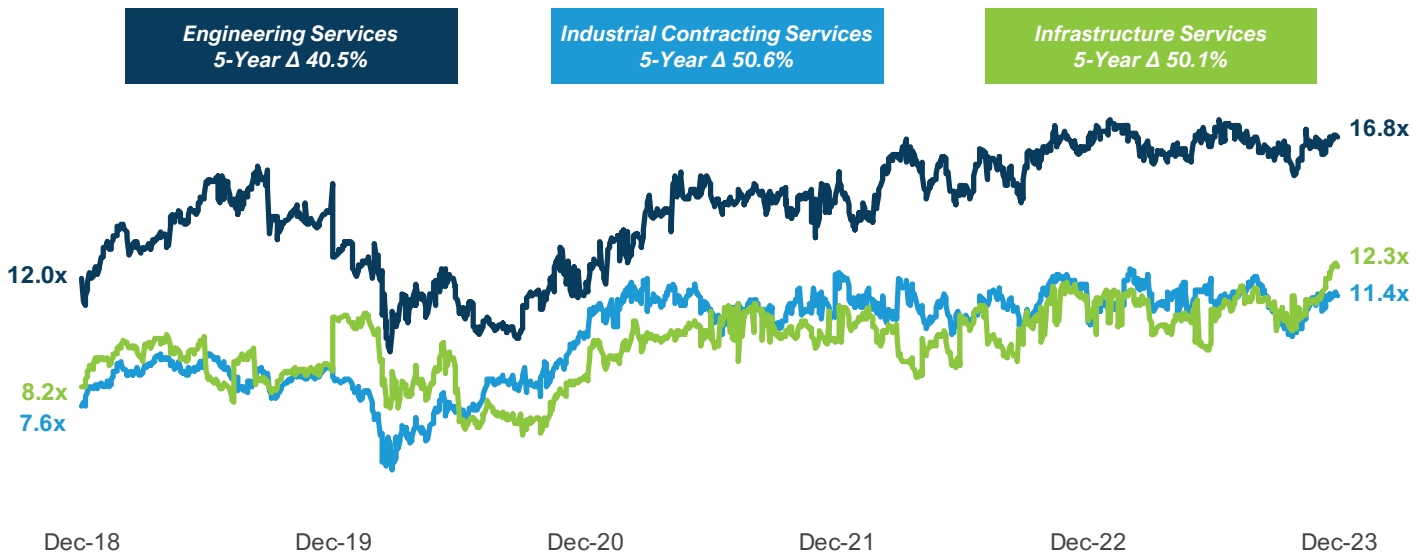
Industrial Contracting Services



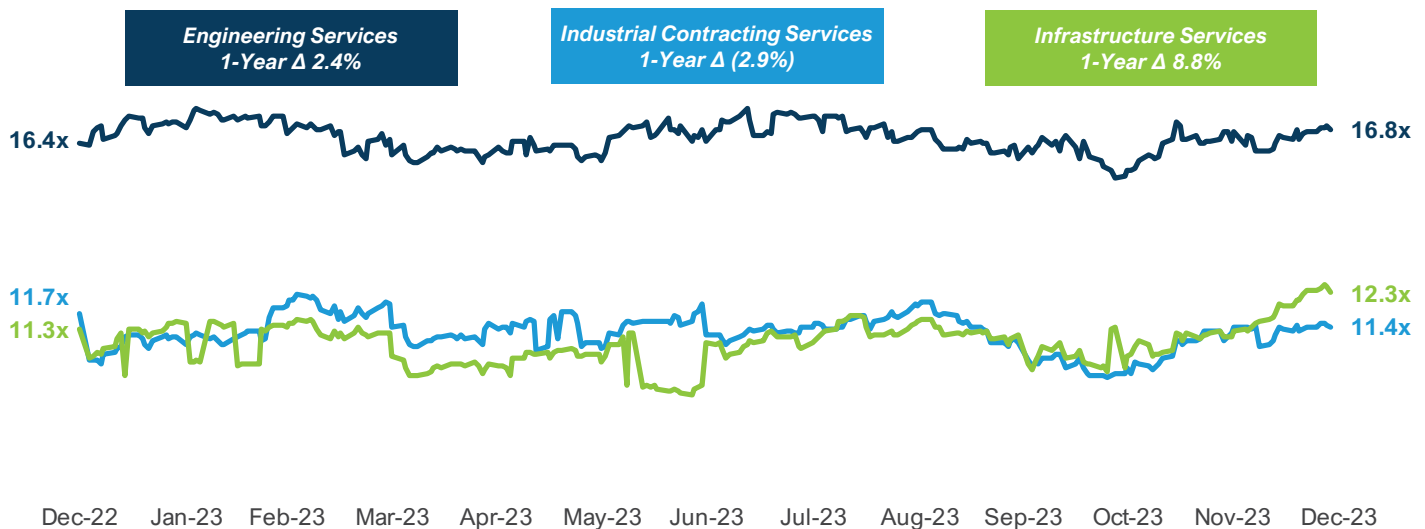
Infrastructure Services



5-YEAR HISTORICAL ENTERPRISE VALUE / LTM EBITDA MULTIPLES



1-YEAR HISTORICAL ENTERPRISE VALUE / LTM EBITDA MULTIPLES

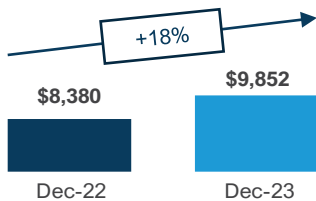
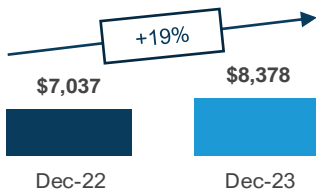
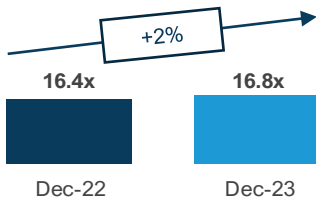
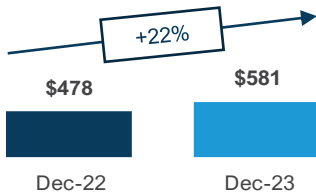


Source: S&P Capital IQ and Stout Proprietary Database

Public E&C Company Year-Over-Year Changes

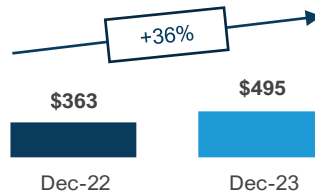
All sectors experienced meaningful growth in market capitalization and enterprise value year over year, pointing to a positive year for the engineering and construction industry. However, although LTM EBITDA increased year over year for engineering and industrial contracting services, infrastructure services saw a decrease in both EBITDA and EBITDA margins, likely due to the global supply chain challenges and rising inflation putting pressure on material costs.

Engineering Services

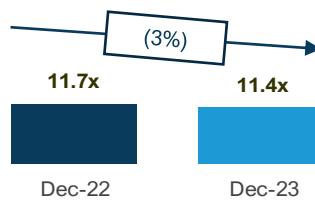


Industrial Contracting Services

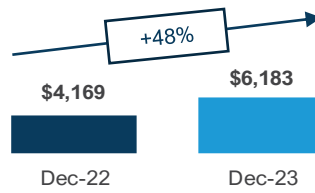
Average LTM EBITDA



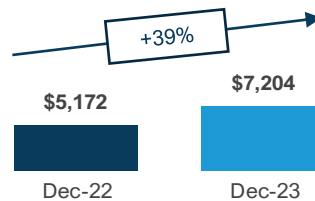
Average EV / LTM EBITDA



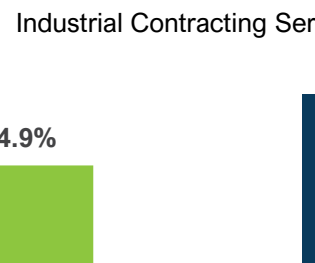
Average Market Cap



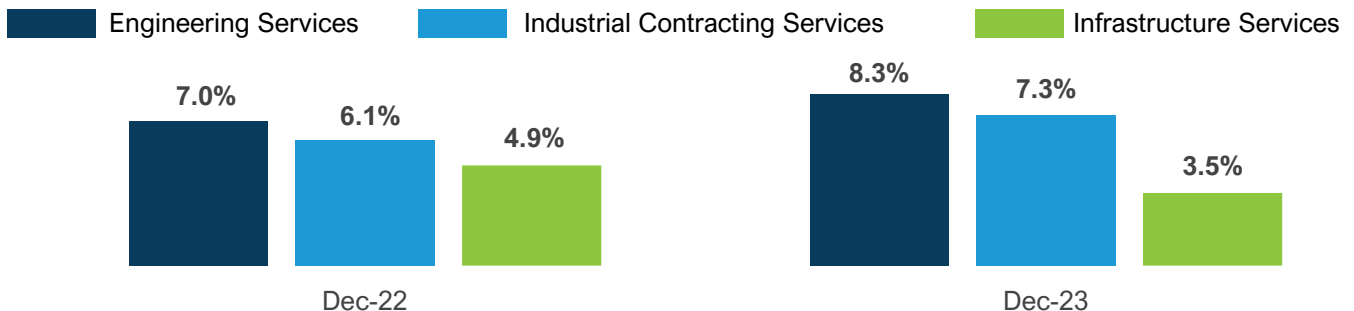
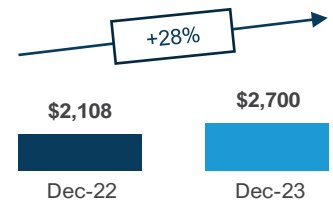
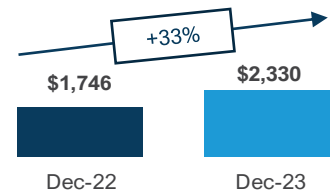
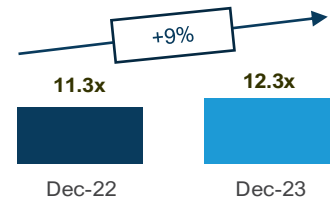
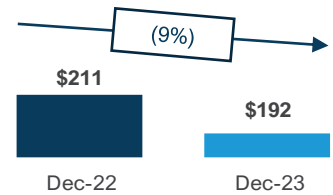
Average Enterprise Value



LTM EBITDA Margin



Infrastructure Services



Source: S&P Capital IQ and Stout Proprietary Database

Transaction Highlights

ENGINEERING SERVICES

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Dec-23	OCI Associates, LLC	Mechanical / Electrical Building Design	Legence Holdings LLC (Blackstone Inc. (NYSE:BX))
Dec-23	Rone Engineering Services, Ltd.	Geotechnology / Environmental Design & Engineering	RMA Group, Inc. (OceanSound Partners)
Dec-23	Hess-Rountree, Inc.	Civil Engineering / Land Surveying	Bowman Consulting Group Ltd. (NasdaqGM:BWMN)
Nov-23	WestLand Resources, Inc.	Environmental Services	Trinity Consultants, Inc. (Oak Hill Capital Management)
Nov-23	CFA, Inc.	Civil Engineering / Land Surveying	Bowman Consulting Group Ltd. (NasdaqGM:BWMN)
Nov-23	Arredondo, Zepeda & Brunz, LLC	Transportation / Environmental / Water Services	Ardurra Group, Inc. (Littlejohn & Co.)
Oct-23	Dennis Corporation	Engineering / Surveying / Construction Management	Bowman Consulting Group Ltd. (NasdaqGM:BWMN)
Oct-23	Advanced Civil Technologies	Highway Design / Water Quality Management	TRC Companies, Inc. (Warburg Pincus)
Oct-23	Summit Engineering Group, Inc.	Civil / Structural Engineering & Land Survey	Atwell, LLC
Sep-23	Excellence Engineering, LLC	Mechanical / Electrical / Civil Engineering Services	Bowman Consulting Group Ltd. (NasdaqGM:BWMN)
Sep-23	WSB & Associates, Inc.	Transportation Engineering / Planning	GHK Capital Partners LP
Sep-23	Horrocks Engineers, Inc.	Civil Engineering Infrastructure Services	Trilon Group, LLC
Sep-23	Mead Gilman & Associates	Land Surveying	Atwell, LLC
Sep-23	Earth Environmental and Civil, Inc.	Environmental / Water Management	POWER Engineers, Incorporated
Jun-23	Infrastructure Engineers	Water / Transportation Services	Bowman Consulting Group Ltd. (NasdaqGM:BWMN)
Jun-23	American Engineers, LLC	Infrastructure Engineering	STV Group (The Pritzker Organization)
Jun-23	MTX Surveying	Land Surveying Services	Bowman Consulting Group Ltd. (NasdaqGM:BWMN)
May-23	VSE Corporation - Federal and Defense Segment	Federal / Defense MRO Aftermarket	Bernhard Capital Partners
Apr-23	Tower Engineering Professionals (Prairie Capital)	Telecommunication Engineering	H.I.G. Capital
Apr-23	DexBender	Environmental / Marine Consulting	Atwell, LLC

Source: S&P Capital IQ and Stout Proprietary Database

Transaction Highlights

ENGINEERING SERVICES

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
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)
Dec-23	Noland's Roofing Inc.	Roof / Renovation Services	Dunes Point Capital, L.P.
Dec-23	Outsource Utility Contractor, LLC	Electrical Contracting	Jumana Capital
Dec-23	The Aero-Mark Company, LLC	Transportation / Roadway Services	Frontline Road Safety LLC (The Sterling Group)
Dec-23	Culy Contracting, Inc. (Midas Utilities)	Water / Sewer Pipelines	Aegion Corporation (New Mountain Capital)
Dec-23	Total Electric, Inc.	Electrical Contracting	ArchKey Solutions LLC (One Rock Capital Partners)
Dec-23	Bear Mountain Mechanical	HVAC & Plumbing	PremiStar, LLC (Partners Group)
Dec-23	Heritage Environmental Services	Waste Management / Recycling Services	EQT Infrastructure
Dec-23	Concrete Solutions, LLC	Concrete Contractor	Chaney Enterprises, LP
Nov-23	S&S Sprinkler Company, LLC	Fire Protection Services	Pye-Barker Fire & Safety, LLC (Littlejohn & Co.)
Nov-23	Multi Mechanical, Inc.	HVAC Services	AMPAM Parks Mechanical, Inc. (Gemspring)
Nov-23	Grace Pacific LLC (Alexander & Baldwin, Inc. (NYSE:ALEX))	Road / Highway Maintenance	Nan, Inc.
Nov-23	First Response DRS	Disaster / Restoration Services	BluSky Restoration Contractors, LLC (Partners Group; Kohlberg & Co.)
Nov-23	Superior Restoration Management, Inc.	Restoration Services	HighGround Restoration Group, Inc.
Nov-23	MWH US Acquisitions, Inc. (Oaktree Capital Management)	Water Treatment Facility Services	Obayashi USA, LLC (Obayashi Corporation (TSE:1802))
Nov-23	Saber Power Services, LLC (Oaktree Capital Management)	Electrical / Power Solutions	Schroders Capital; Wafra Inc.; StepStone Group LP; Greenbelt Capital Mgt. L.P.
Nov-23	J.R. Filanc Construction Company, Inc.	Wastewater Design-Build	Alberici Constructors, Inc.
Oct-23	DECCO, Inc.	Mechanical Contractor	Comfort Systems USA, Inc. (NYSE:FIX)
Oct-23	R.K. Electric, Inc.	Electrical / Data Systems Contracting	Huron Capital Partners, LLC
Sep-23	National Boiler Service, Inc.	Boiler Repair / Maintenance	Plexus Capital, LLC
Sep-23	Superior Grouting Services, Inc.	Grouting / Restoration Services	Valcourt Building Services, LLC (Littlejohn & Co.)

Source: S&P Capital IQ and Stout Proprietary Database

Transaction Highlights

CONSTRUCTION AND INDUSTRIAL SERVICES

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Sep-23	Pieros Construction Co., Inc.	Commercial / Industrial Roof Repair	Tecta America Corporation (Altas Partners; Leonard Green)
Sep-23	A.O. Reed & Company, Inc.	Mechanical Contracting	Legence Holdings LLC (Blackstone)
Aug-23	Broadband Infrastructure, Inc.	Telecom / Data Construction Services	TPT Global Tech, Inc. (OTCPK:TPTW)
Aug-23	APIC Solutions, Inc.	Electrical Contracting	Tower Arch Capital, L.P.
Jul-23	Portland Utilities Construction Company, LLC	Utilities Construction	Aegion Corporation (New Mountain Capital)
Jul-23	Pyrotech, Inc.	Fire Protection Services	Pye-Barker Fire & Safety, LLC (Leonard Green; Altas Partners)
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 Group (Aecon Transportation East (ATE))	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	Worley Ltd. (Turnaround and Maintenance business)	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

Stout E&C Investment Banking Overview

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, services, and end markets.

DEEP SUBSECTOR COVERAGE



Architecture & Engineering



Construction / Program Management



Environmental Services



Facilities Services



General / Specialty Contracting



Industrial Services



Test & Measurement Services



Utility Services

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Stout's Investment Banking group provides mergers and acquisitions (M&A) advisory, capital market financing, and other financial advisory services to portfolio companies of private equity firms, closely held or family-owned businesses, and divisions of large corporate parents. Learn more about our [**Investment Banking services**](#).

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