

TKO Miller Market Analysis

Market Landscape

- Labor shortages continue to be the prevailing pain point facing not just the construction/industrial services markets, but all industries; personnel shortages are becoming universal across unskilled labor, skilled trade, and professional positions
- Most construction industry experts expect labor shortages to be a lingering issue that will impact the industry for the foreseeable future
- Supply chain issues and shortages of materials and equipment are nearly as problematic as labor issues; supply chain constraints and significant price increases, which early in the year led to record prices for building materials, have expanded to include finished goods such as heavy equipment, tools, and safety products
- Net inputs to the construction industry have increased over 20% YoY since August of 2020, according to the producer price index, with prices for key input materials such as lumber and steel driving much of the increase
- Congress is still deliberating, but is expected to vote by the end of October, on the INVEST in America Act, a bill that would extend current infrastructure budgets as well as establish new spending programs for transportation, environmental, and natural resource infrastructure

M&A Conditions

- M&A conditions continue to be strong through the latter part of the year, with activity, as well as valuations, in the industrial and construction services sector remaining high
- This, combined with looming corporate and capital gains tax reform from the Biden administration, created a strong incentive for owners and operators in the industry to launch transaction processes prior to year-end; however, now that the expected tax increase is lower, this may no longer be as large a factor as it once was
- These factors have created something of a log jam of companies wishing to transact by year-end, and buyers and their advisors are struggling to find the capacity to pursue new transactions; this dynamic may create slight (likely temporary) downward pressure on deal volume
- TKO Miller expects to see record overall transaction activity both in terms of volume and value in 2021, but 1Q22 may regress to the mean as fewer transaction processes are launched in the latter half of 2021 in order to accommodate the saturated M&A market

Industrial & Construction Services Transactions

August 2021 – Safewaze Acquires Bee Access

Safewaze, a leading manufacturer of fall protection, rescue, and confined space equipment, has acquired Bee Access, a leading manufacturer and distributor of temporary and permanent suspended access equipment. Bee's current owners will be significant shareholders in the combined company, and both companies will continue to serve customers out of their existing facilities in Florida and North Carolina.

Learn more about how TKO Miller advised Bee Access!



October 2021 – Littlejohn & Co. to Sell HydroChemPSC to Clean Harbors

Littlejohn & Co. LLC, a Greenwich, Connecticut-based investment firm focused on private equity and debt investments, entered into a definitive agreement in August to sell HydroChemPSC, a leading provider of industrial cleaning, specialty maintenance, and utilities services with more than 240 service locations throughout the United States, to Clean Harbors, Inc., for \$1.25 billion in cash. The acquisition, which was subject to regulatory approval and other customary closing conditions, closed in early October.

August 2021 – BrandSafway Acquires Brace Industrial Group

BrandSafway, a leading provider of specialized services to the global industrial, commercial, and infrastructure markets, has acquired Brace Industrial Group, a leading provider of industrial construction services – including scaffolding, insulation, fireproofing, and heat tracing. Combining with BrandSafway offers Brace several key advantages. The company will also be able to take advantage of BrandSafway's support structure — from engineering, product development, and supply chain, to commercial operations, digital technology, and project controls.

October 2021 – TopBuild to Acquire Distribution International

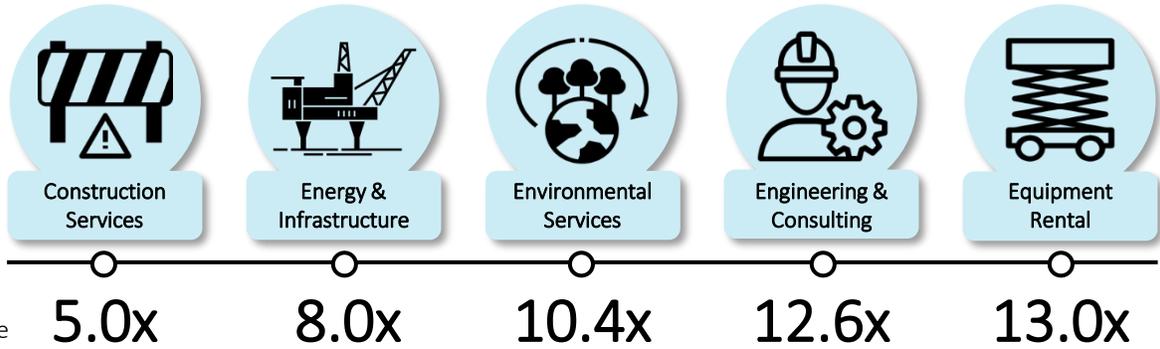
TopBuild Corp., a leading installer and distributor of insulation and building material products to the U.S. construction industry, entered into an agreement in September to acquire Distribution International, a leading specialty distributor of mechanical insulation solutions for the industrial and commercial end-markets. Following the closing of this transaction in mid-October, TopBuild is now the leader of energy saving insulation solutions in all three major end-markets: residential, commercial, and industrial. The all-cash transaction is valued at \$1.0 billion.

Industrial and Construction Services – Q3 2021

Key Stats

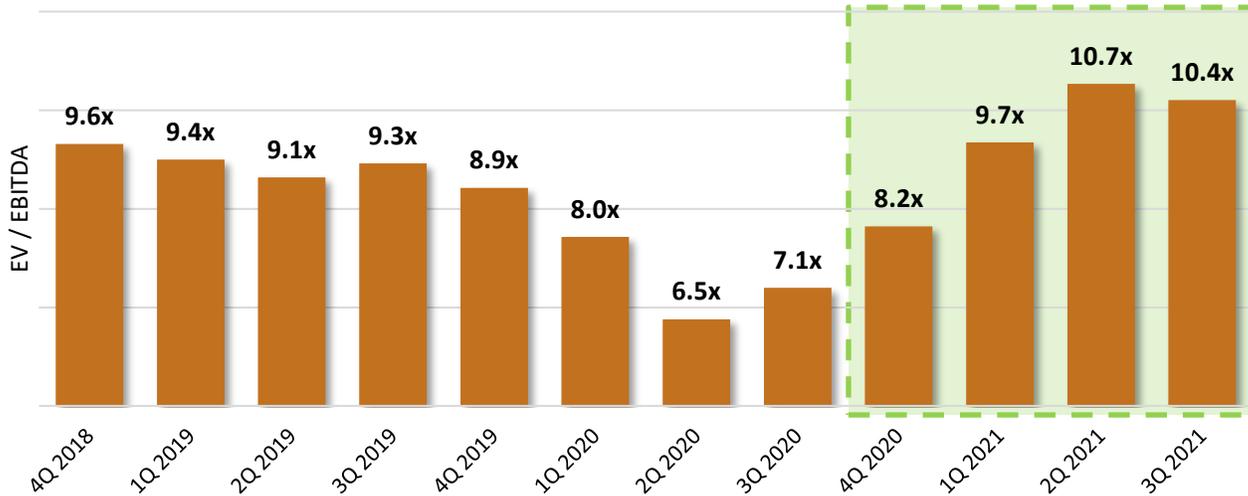
Where Are Industrial Subsectors Valued? (3Q 2021 EV / EBITDA)

Construction Services is the only subsector that remains at pandemic valuation levels, with a significant decline compared to last quarter. Engineering and Rental have rebounded substantially and are trading roughly 25% higher than their respective three-year running averages. Increased demand for maintenance work along with declining new construction starts are key catalysts for these varied results.



Note: Multiples calculated using average EV / EBITDA over the previous 3-month period to avoid one-time variances in data

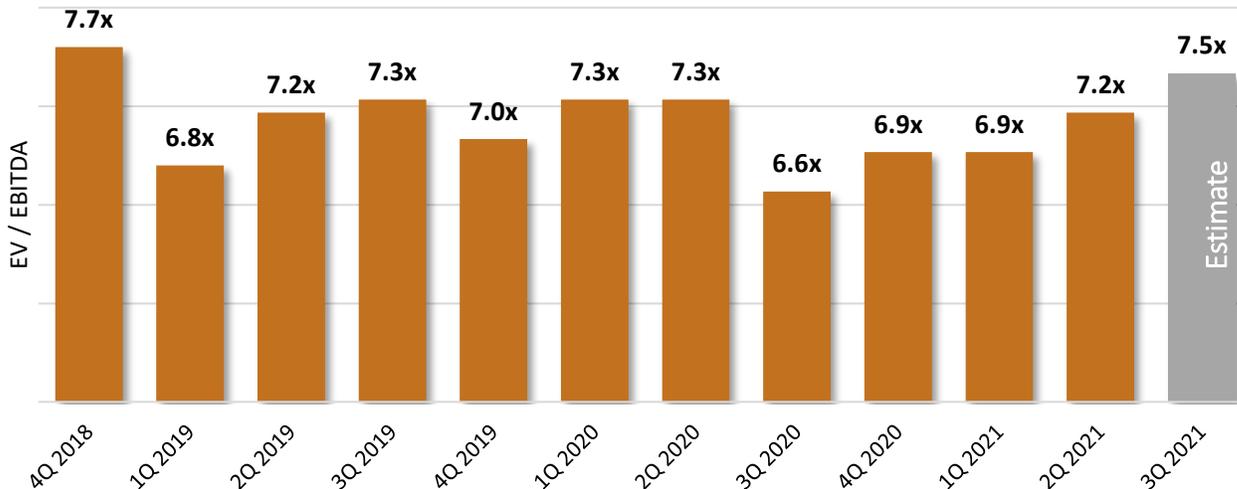
Industrial & Construction Services Valuation Index



Valuation multiples within the industrial and construction services industry have begun to level off after rising to levels that exceeded pre-pandemic multiples. TKO Miller expects multiples to stabilize over the next several quarters, but heightened multiples may be here to stay for the foreseeable future.

Note: Companies with outlying multiples due to financial inconsistencies have been excluded to avoid skewing data

Middle Market Valuation Multiples



Middle market valuation multiples have displayed a similar upward trend post-COVID, with 3Q21 estimated to continue this trend. Note that the industrial and construction services index analyzes public company multiples, which tend to trade at premiums (roughly 25-35%) when compared to smaller companies in the middle market.

Source: GF Data

Industrial & Construction Services News

Construction Starts Hit a Rough Patch, Falling 9% in August

Although construction starts fell 9% in August, they remain up 11% year-to-date. The Delta variant has raised concern that the fledgling economic recovery is stalling out, undermining the already low level of demand for most types of nonresidential buildings. Additionally, significant price increases for construction materials, logistic constraints, and labor shortages are making a challenging situation worse. According to Dodge Data & Analytics, construction starts are expected to remain unsteady over the next few months, however the dollar value of projects entering planning continues to suggest the recovery in construction starts should resume early in 2022. [\[LINK\]](#)

Aerial Equipment Prices Jump 29% in the United States

Buyers are paying a premium for aerial work platforms due to supply constraints, record-high rental rates, strong demand, and the amount of work available. Ritchie Bros.' September Market Trends Report shows positive pricing trends across all its equipment indexes, with aerial equipment prices up 29% in the United States, while medium earthmoving and truck tractors are up 38% and 36% respectively. High-usage and rental rates, as well as OEM production delays, have resulted in a sharp decline in the number of boom lifts, scissor lifts, and telescopic forklifts sold in 2021. Over the past three months scissor lift prices have inflated 15%, while boom lifts and telescopic forklifts are both up 16%. [\[LINK\]](#)

Contractors Find New Ways to Cope With Elevated Lumber Prices

Material price fluctuations have wreaked havoc on construction and labor and has become the dominant source in driving cost increases, experts say. U.S. commercial and residential builders breathed a sigh of relief last month when softwood lumber prices dropped more than 30% after reaching an all-time high in May. Although prices still remain elevated, they have come down to a more manageable level, experts told Construction Dive. Though massive spikes are unlikely going forward, there continues to be significant volatility. [\[LINK\]](#)

The War for Talent: How Contractors Battle for Workers

The construction industry's inability to attract and retain talent, a major problem for more than a decade, has escalated into a full-blown crisis since the start of the COVID-19 pandemic. With only 80% of the one million construction workers who lost their jobs at the start of lockdown returning, according to CNN, Associated Builders and Contractors announced the industry needs to hire 430,000 workers this year and one million more over the next two years to keep pace with demand. Though exacerbated by the pandemic, the industry's talent drain started long before anyone had heard of COVID-19. As contractors have been forced into ever-more creative methods of finding and holding onto workers, industry leaders have formed collectives to study and address the problem. With an aging workforce (median age of construction workers is 41) and a monthly turnover rate of 5.2% compared with 3.6% over all industries, construction has some hurdles to overcome. [\[LINK\]](#)

Ida's Devastation Leads to Renewed Calls for Federal Infrastructure Spending

In the wake of the devastation from Hurricane Ida, President Joe Biden, governors, and congressional lawmakers have ramped up efforts to highlight the importance of new federal infrastructure spending. Elected leaders from the affected states said the storm demonstrated the need for the \$1 trillion infrastructure bill now pending in the House of Representatives. House Speaker Nancy Pelosi has said that lawmakers will vote on it, as well as a companion \$3.5 trillion reconciliation bill, by the end of October. Biden called for the bill's "historic investment" in highways, railways, and bridges, as well as energy and clean water. [\[LINK\]](#)

About TKO Miller

TKO Miller, LLC is an independent, advisory-focused, middle-market investment bank. With over 130 years of collective transaction experience, TKO Miller provides merger and acquisition and financial advisory services for privately-held and private-equity owned businesses, with a special focus on family-and-founder-held businesses.

TKO Miller aims to bring value to clients by combining outstanding people with a results-oriented, flexible approach to transactions. Our services include company sales, recapitalizations, asset divestitures, and management buyouts. TKO Miller has a generalist focus and has served clients in a wide range of industries including manufacturing, business services, consumer products, and industrial products and services. For more information, visit our website www.tkomiller.com.

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