

TKO Miller Market Analysis

- As 2021 gets underway, operators and investors alike are looking for the new year to provide a sense of renewed optimism for global economies.
- Record federal spending bills providing monetary and work-related assistance in response to coronavirus hardship have given infrastructure proponents momentum at the end of 2020 in large part because historically, federally sponsored infrastructure projects have often been one of the best means of boosting an economy due to its dual-ability to provide both jobs and capital directly to main street.
- While bipartisan efforts to get a trillion-dollar infrastructure spending bill across the finish line failed during the Trump administration, the Democratic sweep this election cycle is likely a positive indication that President-elect Joe Biden's infrastructure plan to build a modern, sustainable infrastructure in the United States could come to fruition as early as the end of 2021.
- Backlogs remain a crucial factor in determining overall performance in the construction and industrial services sectors in 2021, and the market is still faced with fewer bidding opportunities and fierce competition as a result of recessionary pressures, with some contractors indicating substantial reduction of their current backlogs at year-end.
- Human capital in these segments quickly regained traction after mass unemployment in the early stages of the pandemic, with roughly 60.0% of jobs being recovered across construction and manufacturing as of September.
- M&A activity increased at the end of 2020, and valuation multiples within the industrial and construction services sectors continued to edge upward in the most recent quarter after a large decline in 2Q20 as the industry pressed pause on virtually all new project activity to assess market factors.
- These M&A trends should continue as slowed organic growth pressures companies to seek value through accretive transactions to increase shareholder value.
- The negative economic ripples from 2Q20 and 3Q20 have begun to dampen as the picture for 2021 becomes clearer, with a Democratic sweep improving the possibility of an infrastructure spending bill, COVID-19 vaccines increasing economic confidence, and employees heading back to work.
- That said, the impact of the coronavirus pandemic on broader, longer-term construction demand drivers (office capacity, reduced business travel and lodging needs, shift from urban to suburban housing, etc.) is yet to be fully seen. While the outlook for construction activity in 2021 seems to be improving, many sources are still expecting an overall reduction in construction spending compared to 2020 (down roughly 4.0-5.0%) as pre-COVID backlogs diminish and new project starts lag.

Industrial & Construction Services Transactions

Jan 2021 – Herc Holdings Acquires Houston-based Champion Rentals

Herc Holdings, Inc. (operating as Herc Rentals), an equipment rental supplier based in Bonita Springs, FL, has acquired substantially all the assets of Houston-based Champion Rentals, a full-service general equipment rental company with four locations in the Houston area. The transaction represents Herc Rentals' first multi-location acquisition since it became an independent, publicly-traded company in 2016.

Dec 2020 – Alta Equipment Acquires New York State's Vantage Equipment

Alta Equipment Group, an integrated industrial and construction equipment provider specializing in equipment rental, sales, and service, has acquired Vantage Equipment, a privately held construction equipment dealer operating in three branches in the state of New York. Since going public in February 2020, Alta has completed seven transactions and deployed \$151.0 million in capital into strategic acquisitions.

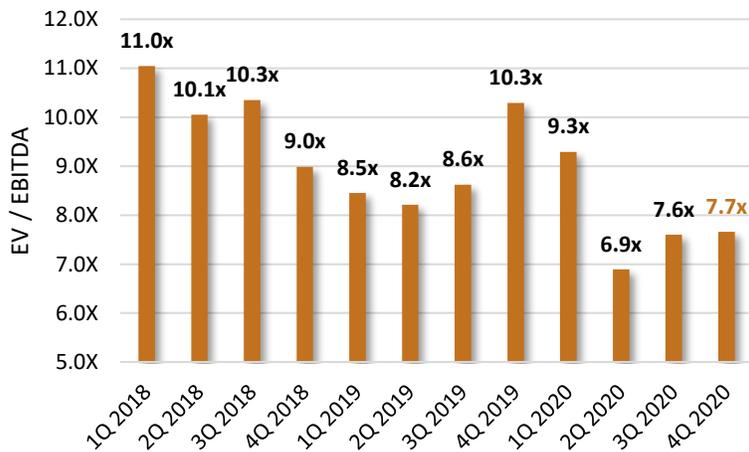
Dec 2020 – BrandSafway Acquires Big City Access

TKO Miller advised Big City Access, a Houston-based premier provider of scaffolding and other access solutions in the Texas commercial construction market, on its sale to BrandSafway, the largest provider of integrated commercial and industrial services. The transaction expands BrandSafway's reach and reputation within the region.

Nov 2020 – The Home Depot Acquires HD Supply Holdings

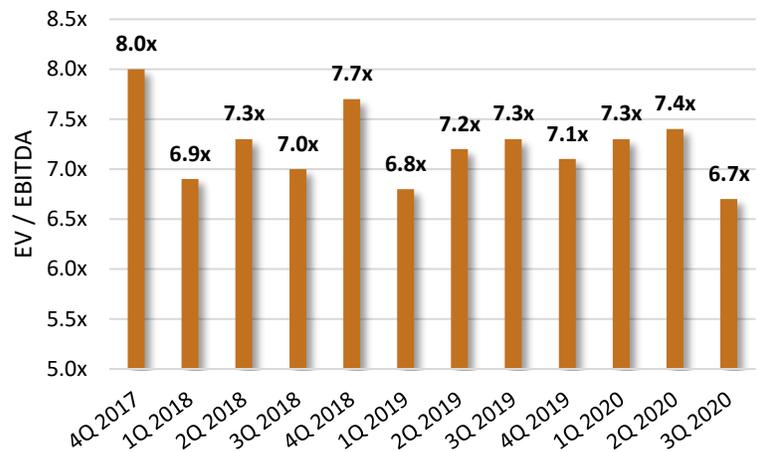
Home Depot, the world's largest home improvement retailer, has acquired HD Supply Holdings, a leading national distributor of maintenance, repair, and operations products, for around \$8.0 billion. The transaction reunites the two companies after a 2007 spinoff, which saw HD Supply acquired by a syndicate of private equity buyers. The acquisition comes after HD Supply divested its construction and industrial business, White Cap, in September 2020 to CD&R for approximately \$4.0 billion.

Industrial & Construction Services Valuation Index



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

Middle Market Valuation Multiples



Source: GF Data

Industrial & Construction Services News

U.S. Construction Starts to Increase 4.0% in 2021, Dodge Data & Analytics Predicts

Total U.S. construction starts will increase 4.0% in 2021, following an estimated 14.0% decrease in 2020, according to Dodge Data & Analytics predictions in its 2021 construction outlook. According to chief economist Richard Branch, the dollar value of starts for residential buildings will increase 5.0% in 2021, while nonresidential buildings will gain 3.0% and nonbuilding construction will improve 7.0%. Despite improvements across the spectrum, only the residential sector is expected to exceed its 2019 level of starts, thanks to historically low mortgage rates that boost single-family housing. [\[LINK\]](#)

Ritchie Bros. to Hold Annual Orlando Mega Auction Entirely Online in 2021

Ritchie Bros., famous for its massive annual February mega auctions, announced that 2021's auction will be conducted entirely online for the first time in the company's history. In 2020, Ritchie Bros. has seen website traffic increase by 35.0% to 27+ million visits, while bidder registrations are up 71.0% to 817,000+ registrations. Once online, buyers have been extremely active, watch-listing more than 680,000 items and making more than 300,000 PriorityBids. The 2021 event will be held February 15-20. [\[LINK\]](#)

North American Petrochemical Producers Delayed CAPEX in 2020, a Trend that May Continue in 2021

The shale gas advantage of North American petrochemical majors provides a boost for investments in the region. However, with the oil price crash, this advantage was narrowed, and profitability was likely affected. According to an Oil and Gas Analyst at GlobalData, the sudden decline in crude oil prices have distinctly affected the planned investments by North American producers, and these investors now need to efficiently pace investments while preserving long-term gains. GlobalData expects companies to lower their operating expenses and capital expenditures, focusing on less capital intense investments to position themselves well while the market recovers. [\[LINK\]](#)

U.S. Construction Spending Sets a Record in November Despite Nonresidential Shrinkage

The value of U.S. construction put in place rose 0.9%, reaching a seasonally adjusted annualized rate of \$1,459 trillion which is the highest value since the government began tracking this series in 2002. Despite these numbers, nonresidential construction remained in a slump. Private nonresidential construction declined for the fifth-straight month in November, while public nonresidential construction fell for the fifth time in six months. [\[LINK\]](#)

2021 Construction Economic Forecast

The construction industry has seen widescale disruption as the coronavirus pandemic continues to affect global economies. When the economy hit a brick wall in March and April and behavior among global producers and consumers began to shift, so too did the dynamics within construction industry segments. Employment across the industry is down; nonresidential construction is the weakest it has been in more than a decade; confidence indices indicate near-record lows. However, new market segments such as data centers and E-commerce fulfillment warehouses have become more desirable and are expected to be a source of profitability in the wake of COVID-19. [\[LINK\]](#)

Petrochemical Industry Leaders Look to Coming Years with Cautious Optimism

Following a tumultuous 2020, members of the petrochemical industry look toward the future with cautious optimism. From a trend perspective, analysts in the industry are predicting an uptick to begin somewhere in late 2021 or 2022, according to a Senior Operations Director for Dow Chemical. While many are viewing 2021 as a transitional year with limited growth, such a year would position the industry well for strong growth years in 2022 and 2023. [\[LINK\]](#)

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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