

TKO Miller Market Analysis

Construction Services

Workforce shortage, supply chain disruptions, and construction cost increases caused disruption for the construction industry in the fourth quarter of 2021. While in other industries the recovery continued to gain momentum despite these challenges, according to the U.S. Chamber of Commerce Commercial Construction Index (Index), Q4 saw negativity in the revenue outlook and confidence despite growing positivity toward construction backlogs.

Most of the negativity can be largely attributed in part to workforce challenges; 91% of contractors reported high difficulty finding skilled workers. Backlogs in many areas are at near-record levels, but workforce and materials shortages, coupled with increased COVID-19 infection rates, have created challenges with completing work. In Q4, the Index showed a record-high 95% of contractors are also experiencing at least one product shortage, up two points from 93% in Q3, and up 24 points YoY, with steel being the most reported product shortage, followed by roofing materials and wood/lumber.

Industrial Services

Industrial service markets are facing similar labor and material shortages, however, strong demand and increasing backlogs are keeping the optimism strong. Industrial production is back at peak levels with increases in new orders – all of which suggest continued growth in early 2022. Optimism about growth remains somewhat in check given the continued risks of inflation (especially commodities), labor shortages, potential higher corporate tax rates, and higher borrowing rates.

M&A Conditions

- 2021 finished as a record year for nearly all M&A metrics; deal volume, valuations, and aggregate transaction values were all at or near record levels
- Deal activity late in the year strained aspects of the M&A infrastructure, with attorneys, accountants, and other advisors all reporting capacity constraints and delays
- These delays, coupled with continued high volume, have positioned 2022 for a very busy start
- High transaction volume and attractive valuations are expected to continue into mid-to-late 2022, but supply constraints and the high potential for an interest rate increase create uncertainty beyond that

Industrial & Construction Services Transactions

October 2021 – BrandSafway Acquires German Scaffolding and Access Provider Gerüstbau Muehlhan GmbH

In a move to expand its scaffolding and access capabilities in Germany, BrandSafway, a leading provider of specialized services to the global industrial, commercial, and infrastructure markets, has acquired Gerüstbau Muehlhan GmbH, a full-service scaffolding provider that offers scaffold design, installation and dismantling services for customers in various end markets. Together, BrandSafway and Gerüstbau Muehlhan can offer an even wider range of customized and highly efficient scaffolding services to an enlarged customer base.

December 2021 – Sunbelt Rentals Acquires Mahaffey USA

Sunbelt Rentals, a premier rental equipment company in North America offering a highly diversified product mix, has acquired Mahaffey USA, a provider of temporary fabric structures for businesses, including temporary warehouses, aviation hangars, fire stations, blast-resistant structures, base camps for the military, storage, production spaces for manufacturers. The acquisition provides Mahaffey USA an opportunity to continue the incredible growth that they have experienced over the last decade.

November 2021 – Herc Holdings Inc. Acquires Rapid Equipment Rental and SkyKing Lift Rentals

Herc Holdings Inc., a leading North American equipment rental supplier operating through Herc Rentals Inc., announced that it has completed the acquisition of Toronto-based Rapid Equipment Rental Limited, a full-service general equipment rental company serving construction and industrial customers throughout the Greater Toronto Area. Herc also announced the acquisition of SkyKing Lift, a single-location equipment rental business specializing in mobile elevating work platforms, including scissor and boom lifts located in Chicago, IL.

December 2021 – Ohio Transmission Corp. Acquires Critical Rental Solutions

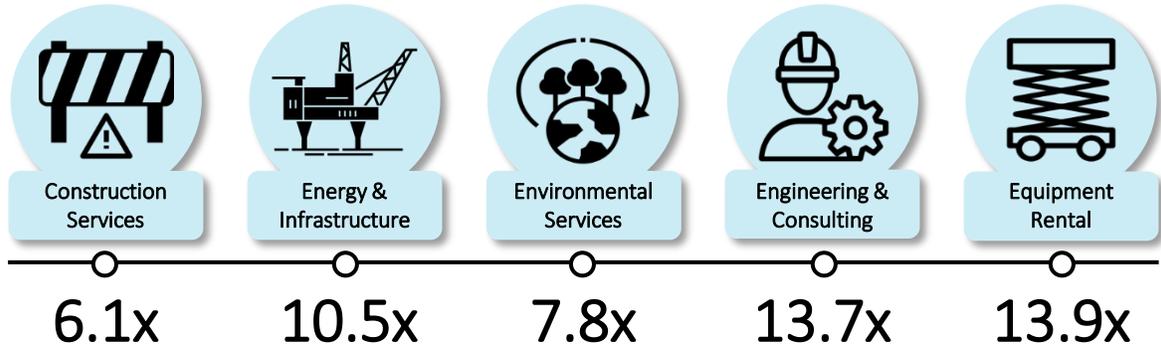
Ohio Transmission Corp. (OTC), an industrial equipment service provider and distributor, has acquired Critical Rental Solutions, a provider of oil-free air and temperature control rental equipment throughout the United States. With this acquisition, Ohio Transmission Corporation now has 57 locations throughout the United States, along with over 36 service shops. The addition of Critical Rental Solutions as expands Ohio Transmission Corporation's workforce to nearly 1,500 employees. Critical Rental Solutions will operate under OTC's Air Supply Group.

Industrial and Construction Services – Q4 2021

Key Stats

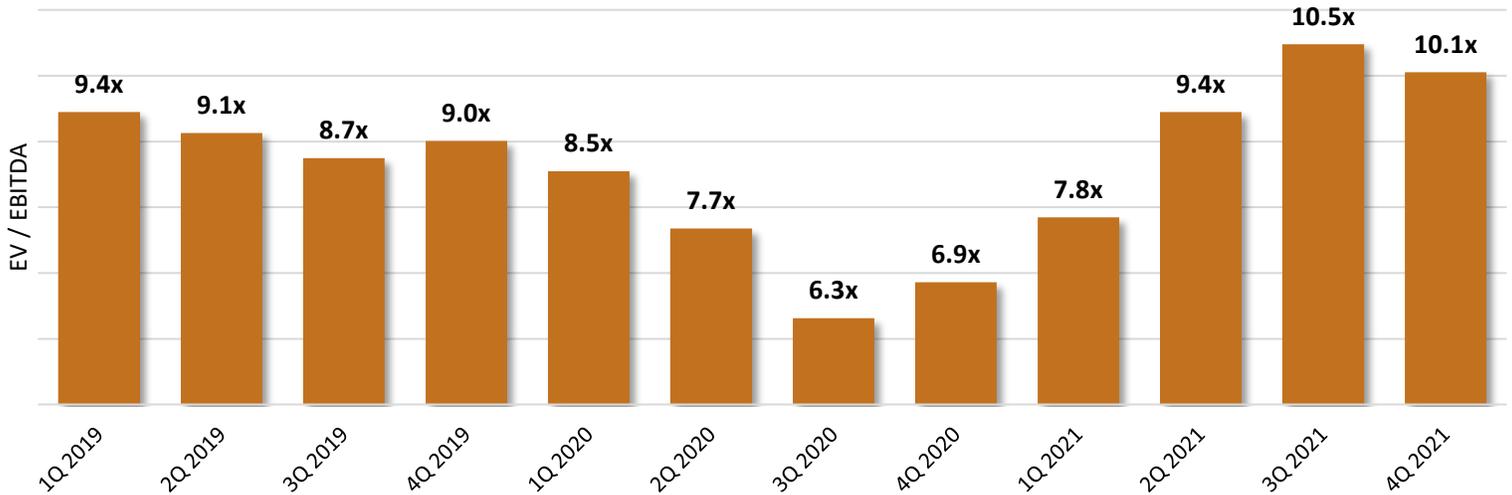
Where Are Industrial Subsectors Valued? (4Q 2021 EV / EBITDA)

Construction Services subsectors continue to see strong multiples. Environmental Services saw a 25% decline from last quarter; whereas all other subsectors showed growth. Contractors' inherent cyclicality (particularly on the commercial side) is causing some drag on valuations for construction companies compared to other industries, but industrial and infrastructure subsectors are seeing strong interest and attractive valuations.



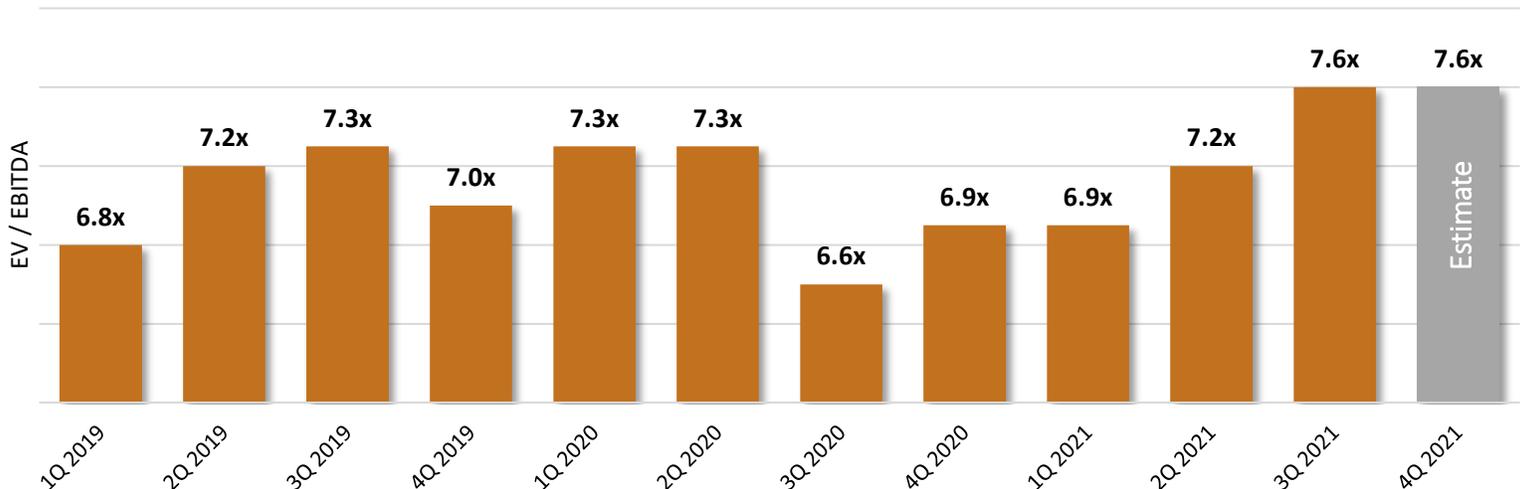
Note: Multiples calculated using average EV / EBITDA over the previous 3-month period to avoid one-time variances in data

Industrial & Construction Services Valuation Index



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

Labor Shortage Could be 2022's Biggest Barrier to Construction Growth

The construction industry experienced large gains in 2021, as consumers took advantage of low interest rates and increased pandemic-related savings. Although commercial construction continued to struggle with many still working remotely, residential construction of single- and multifamily homes boosted the industry upward, leading the demand for additional workers. In 2021, the construction industry added 121,000 jobs across all major subsectors including residential building, nonresidential, and heavy civil engineering, however, continued labor shortages are undermining the construction industry's ability to fully recover from the pandemic. [\[LINK\]](#)

How COVID-19, Supply Chain Woes Hit Contractor Backlogs

Backlogs provide a glimpse of what lies ahead in an industry that typically measures itself on the solid foundations of what has already been built, and the real, measurable dollars that have already poured into its resources. During the pandemic, the industry's collective backlog numbers charted a line as jagged as the impacts of the crisis itself. When the pandemic started, jobs that had been on the drawing board were cancelled or delayed, this meant returning leased equipment and laying off workers. As the impacts of the highly contagious delta variant spread throughout summer of 2021, an emerging recovery of the supply chain was put in check, causing widespread shutdowns in Southeast Asia and driving material prices even higher around the globe. [\[LINK\]](#)

Step Increases in Material Costs Adding to Squeeze on Contractor Margins

Prices of numerous construction materials soared again in November, outpacing the rate at which contractors raised their bid prices, according to an analysis by the Associated General Contractors of America (AGC) of government data. A wide range of products used in construction, as well as trucking services, posted double-digit price increases over the past 12 months. The price index for steel mill products more than doubled, soaring 141.6% since November 2020. The index for aluminum mill shapes jumped 41.1% over 12 months, while the index for copper and brass mill shapes rose 37.8%. Trucking costs climbed 16.3%, as did the index for asphalt felts and coatings. Association officials said the steep rise in materials prices shows that more needs to be done to tackle the supply chain issues and price inflation that are making it difficult for contractors to be successful. [\[LINK\]](#)

How Technology is Improving Construction Workflows

COVID-19 changed priorities on construction sites in ways that accelerated adoption of building information modeling (BIM), drones, virtual reality, and artificial intelligence. The architecture, engineering, and construction industry has historically been slow to adopt new technologies. When change does come, it moves at a glacial pace. One area where innovation has lagged is technology enhancing design, quality control, or project management. Some of these tools, like Microsoft HoloLens and BIM, have been around for several years but most construction companies used them sparingly, if at all. The COVID-19 pandemic has accelerated and changed this on construction sites around the world. [\[LINK\]](#)

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.

Tim Oleszczuk
Managing Director
timo@tkomiller.com



Tammie Miller
Managing Director
tmiller@tkomiller.com