

# Business Service: Building Improvements Industry

Q3 2023

## 2023 Outlook: Opportunity is growing as landlords seek leasehold improvements

Merger and acquisition (“M&A”) activity has remained strong since the beginning of 2023 after record activity in 2021 and 2022. Companies focused on commercial real estate improvements have shown resiliency amid significant economic uncertainty as their typically asset-light business models and growing backlog of recurring service contracts have continued to attract buyer interest and support above-average valuations.

### Key Industry Drivers

- ◆ Many employers have adopted a hybrid work environment, leaving commercial real estate landlords struggling to maintain occupancy. As a result, property owners have been repurposing or improving their spaces to accommodate updated workplace norms and to foster hybrid work environments.
- ◆ Fears of contagion amidst the COVID-19 pandemic accelerated the demand for zero-touch buildings, improved HVAC solutions, UVGI systems and other disinfectant services in office spaces.
- ◆ Demand for building upgrade services continues to grow resulting from public funding increases, such as the CHIPS and Science Act. These programs are facilitating demand for building upgrade services as they provide incentives for landlords to improve the infrastructure and technology in their buildings.
- ◆ There are stockpiles of capital ready to buy commercial real estate assets at discounts as the market continues to struggle. With these ownership transfers, building upgrades by new landlords typically take place to entice tenants away from other properties creating a sizeable opportunity for building improvement service providers.
- ◆ The market is relatively fragmented, with most participants being regional, independently owned businesses, which generates significant interest from Private Equity (“PE”) buyers pursuing roll-up acquisitions.

### Current Trends

- ◆ As labor shortages and supply chain bottlenecks persist, industry participants have pursued M&A opportunities which expand operational resources or gain new capabilities in end markets with more resiliency against economic uncertainty.
- ◆ Valuation multiples of Building Automation, Electrical, Fire and Safety and HVAC and Mechanical publicly traded peers outperform the broader business services industry at 8.7x and 14.3x respectively, as compared to 7.4x. Disclosed M&A transaction multiples since 2018 averaged ~14.5x, reflecting the significant premiums paid for business services companies
- ◆ There is a significant amount of M&A activity among industry participants, particularly strong among financial buyers. PE-backed firms such as Albireo Energy have been particularly active, completing 15 acquisitions in the past 4 years.

### Key Takeaways

- The industry will remain resilient as acquirers have more freedom and inclination to invest into real estate assets that were acquired at a discounts.
- Industry demand continues to be driven by new commercial construction, retrofits, and upgrades to existing buildings.
- Companies with long-term revenue generating contracts are being held in a higher regard by acquirers amidst the current markets.

### Key Contacts



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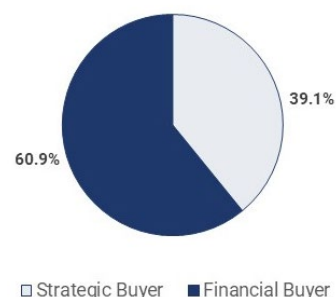
Sources: S&P Capital IQ, IBISWorld, Pitchbook, Griffin Financial Group Research

# Select 2022/2023 Middle-Market Transactions

Closed Date	Target	Acquirer	Buyer Type	Target Business Description
8/3/2023	REECE Complete Security Solutions	Pavion	PE Platform (Wind Point Advisors, LLC)	Provider of integrated solutions for access control, video surveillance, intrusion detection and remote monitoring
8/1/2023	American Event Services	Solheim Investment Partners	Financial Buyer	Manufacturer of heating, ventilation and air conditioning (HVAC) equipment, fluid handling, power distribution and other related products
7/12/2023	Environmental Systems Corporation	Fidelity Building Services Group	PE Platform (Onex (TSE: ONEX))	The company offers lighting controls, heating, ventilation, air conditioning (HVAC) automation, fire protection, electronic vehicle charging station, enhancing building performance by integrating intelligent building systems.
7/7/2023	Wendel Mechanical	Not Disclosed	Strategic Buyer	The company's services include replacements and maintenance of heating, ventilation, and air conditioning machines, enabling clients to get a wide range of HVAC maintenance services
7/1/2023	Owens Companies	Orion Group	PE Platform (Alpine Investors)	Provider of HVAC services intended for both commercial and residential sectors, including design/build contracting, building automation and furnace services
7/1/2023	Redblue	Orion Group	PE Platform (Alpine Investors)	Provider of commercial and industrial HVAC maintenance services, including scheduled maintenance, troubleshooting and repairs, equipment replacement, building automation services, and LED lighting retrofits for HVAC systems
5/24/2023	Total Mechanical Repair Services	Tech-24	PE Platform (HCI Equity Partners)	The company specializes in servicing hot and cold side equipment and HVAC repairs as well as provides installation for commercial kitchens
5/16/2023	Service Specialists	Nextech	PE Platform (Audax Group)	The company offers commercial HVAC, hood systems, refrigeration, ice making, food service, and cooking equipment service and installation services
5/10/2023	Premier Security Solutions	Corbett Technology Solutions	PE Platform (Wind Point Advisors, LLC)	The company offers a range of services including burglar alarm systems, card access systems, central station monitoring, commercial fire alarms and video surveillance systems
5/1/2023	Olympic Wire & Cable	Genuine Cable Group	PE Platform (Audax Group)	The company offers electric wires and cables which are used in a variety of applications, including electrical wiring, telecommunications, industrial automation, medical devices, building automation and more
4/25/2023	Absolute Air Services	Sila Heating & Air Conditioning	PE Platform (Constitution Capital Partners, Morgan Stanley Capital Partners)	Provider of heating, ventilation and air conditioning maintenance services, including plumbing, inspection, repairs, tune-ups, installations, replacements, preservation and replacements of air conditioners, coolers, heating equipment and ventilators
4/13/2023	Alliance Group	Trinity Hunt Partners	Financial Buyer	The company specializes in the maintenance, repair and installation of commercial HVAC systems along with electrical, plumbing, construction and building automation services
4/12/2023	The Hartline Company	Pye-Barker Fire & Safety, LLC	PE Platform (Atlas Partners LP)	Provider of security systems, fire alarms, access control and fire safety services intended to serve residential and commercial customers
3/31/2023	International Energy Conservation Systems	M.C. Dean	Strategic Buyer	The company offers services such as building automation IT integration, enterprise systems and management, utility metering and reporting, retrofit control installation, wireless devices and networking
3/22/2023	JPG Plumbing & Mechanical Services	American Combustion Industries	PE Platform (Huron Capital, The Stephens Group)	The company offers heating, ventilation and air-conditioning (HVAC), construction, industrial vacuum, stormwater management, preventative maintenance and repair services and more
3/22/2023	N.E.W. Plumbing & Heating	Heartland Home Services	PE Platform (The Jordan Company)	Provider of air conditioning, heating, plumbing and cooling (HVAC) services based in Warsaw, Indiana
3/10/2023	Vivint Smart Home, Inc. (NYSE:VVNT)	NRG Energy, Inc. (NYSE:NRG)	Strategic Buyer	Engages in the sale, installation, servicing, and monitoring of smart home and security systems primarily in the United States and Canada
3/10/2023	Comfy Bear Heating Air Plumbing	Triple Play Home	Strategic Buyer	Provider of plumbing, heating, and air conditioning service to both commercial and residential clients
3/9/2023	ThermaServe	American Combustion Industries	PE Platform (Huron Capital, The Stephens Group)	The Company offers system and unit replacement, HVAC mechanical system repair, building automation and modernization services
3/6/2023	Security Solutions NW	Security 101	PE Platform (Gemstone Capital)	The company offers services such as fire alarm installation, smoke detection, intercom systems and video surveillance
3/1/2023	Intelligent Lighting Controls	Signify (AMS: LIGHT)	Strategic Buyer	Manufacturer of light controls focused on energy-saving controls in applications used in healthcare, education, offices and sporting venues with scalable and flexible controls.
3/1/2023	Minvalco	Building Controls & Solution	PE Platform (LKCM Headwater Investments)	The company offers a range of control interfaces, variable frequency drives, pressure switches, insulation tubing and other components along with technical support and wireless solutions

M&A Market

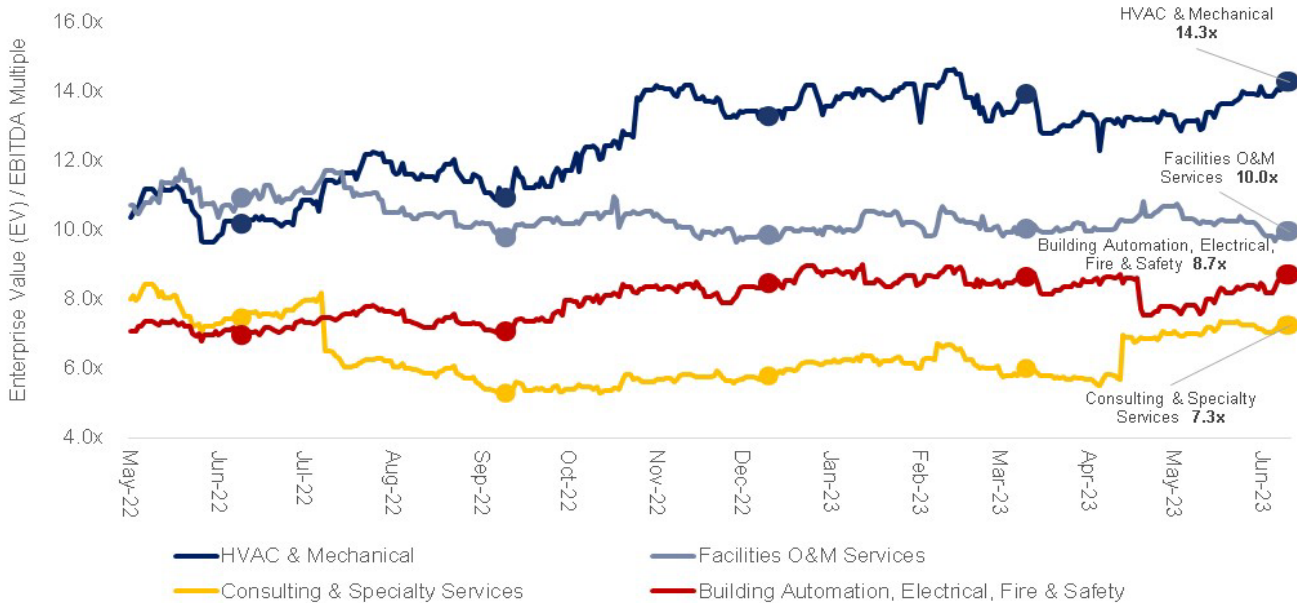
- ◇ PE firms or strategics sponsored by PE firms accounted for more than three-fifths of M&A activity since the beginning of 2023 demonstrating the strong appetite among PE firms for business services companies.
- ◇ Publicly traded or privately owned strategics account for the remaining 39.1%, reflecting that strategics such as Emcor and APi also make acquisitions of manufacturing and distribution companies that would fall outside the scope of this analysis



Sources: S&P Capital IQ, IBISWorld, Pitchbook, Griffin Financial Group Research

# Public Market Insights

## Business Services EV/EBITDA Multiples



## Building Automation, Electrical, Fire and Safety Peer Group Valuation Data

Company	Ticker	Market Cap (\$mm)	Enterprise Value (\$mm)	LTM Revenue (\$mm)	LTM EBITDA (\$mm)	EBITDA Margin (%)	EV / TTM Revenue	EV / TTM EBITDA
Limbach Holdings, Inc.	Nasdaq:LMB	\$ 262	\$ 269	\$ 503	\$ 32	5.5%	1.0x	8.5x
EMCOR Group, Inc.	NYSE: EME	8,786	9,008	11,374	1,007	6.4%	0.7x	8.9x
Ameresco, Inc.	NYSE:AMRC	2,535	3,980	1,621	180	10.6%	1.3x	22.1x
IES Holdings, Inc.	Nasdaq: IESC	1,147	1,250	2,328	148	5.4%	1.8x	8.4x
APi Group Corporation	NYSE: APG	6,412	9,667	6,701	735	8.6%	0.2x	13.2x
ADT Inc.	NYSE: ADT	5,501	15,214	6,463	2,634	38.8%	0.4x	5.8x
<b>Select Public Companies Summary</b>							<b>As of: 6/30/2023</b>	
<b>Mean</b>		\$ 4,107	\$ 6,565	\$ 4,832	\$ 789	12.6%	0.9x	11.1x
<b>Median</b>		<b>4,018</b>	<b>6,494</b>	<b>4,396</b>	<b>457</b>	<b>7.5%</b>	<b>0.9x</b>	<b>8.7x</b>
<b>Min</b>		262	269	503	32	5.4%	0.2x	5.8x
<b>Max</b>		8,786	15,214	11,374	2,634	38.8%	1.8x	22.1x

## HVAC and Mechanical Public Company Peer Group Valuation Data

Company	Ticker	Market Cap (\$mm)	Enterprise Value (\$mm)	LTM Revenue (\$mm)	LTM EBITDA (\$mm)	EBITDA Margin (%)	EV / TTM Revenue	EV / TTM EBITDA
Comfort Systems, USA INC	NYSE: FIX	\$ 5,856	\$ 6,153	\$ 4,430	\$ 427	8.5%	1.0x	14.4x
Johnson Controls International	NYSE: JCI	46,751	57,784	26,093	4,088	12.7%	0.7x	14.1x
<b>Select Public Companies Summary</b>							<b>As of: 6/30/2023</b>	
<b>Mean</b>		\$ 26,303	\$ 31,968	\$ 15,261	\$ 2,257	10.6%	0.9x	14.3x
<b>Median</b>		<b>26,303</b>	<b>31,968</b>	<b>15,261</b>	<b>2,257</b>	<b>10.6%</b>	<b>0.9x</b>	<b>14.3x</b>
<b>Min</b>		5,856	6,153	4,430	427	8.5%	0.7x	14.1x
<b>Max</b>		46,751	57,784	26,093	4,088	12.7%	1.0x	14.4x

Sources: S&P Capital IQ, IBISWorld, Pitchbook, Griffin Financial Group Research

# Business Services

Griffin provides a wide range of investment banking services to middle-market companies in the business services industry.



- [Griffin Financial Group](#) is a leading investment bank focused on the needs of middle-market companies.
- We provide M&A advisory, capital advisory and strategic consulting services to the financial institutions, consumer, commercial and industrial, services, technology and private equity sectors.
- Part of The Stevens & Lee Companies, a multidisciplinary professional services platform of 250+ professionals. Together, we provide a full range of investment banking, legal, business and government consulting services to assist clients in solving their most complicated problems. This platform gives our clients access to a full range of services that, when needed, enhance our investment banking services and our ability to deliver the results our clients deserve.
- We specialize in closely held private and small-cap public companies, with broad experience with service-oriented opportunities, and particular expertise regarding family-owned and owner-operated businesses.

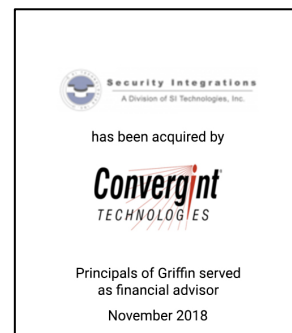
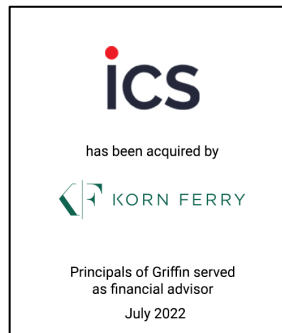
## Relevant Case Study



Core States Group is a privately held architecture, design, engineering, signage and construction services firm.

Griffin managed a competitive sale process involving a select group of financial investors, which ultimately resulted in CSG being sold to Harren Equity Partners, a private equity firm based in Virginia.

## Representative Transactions



# Appendix

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1. Security Alarm Services Industry in the US - System monitored: Integration of new technologies with security systems will likely drive industry revenue growth <https://www.ibisworld.com/united-states/market-research-reports/security-alarm-services-industry/>
2. Security Services Industry in the US - On lockdown: New security trends will likely enable operators to effectively compete with competitors <https://www.ibisworld.com/united-states/market-research-reports/security-services-industry/>
3. Electricians Industry in the US - Bright future: Skilled labor shortages and supply chain disruptions will likely persist over the next five years, limiting industry profit <https://www.ibisworld.com/united-states/market-research-reports/electricians-industry/>
4. Commercial Real Estate Industry in the US - First offer: The industry will adapt to shifting trends and corrections in real estate prices <https://www.ibisworld.com/united-states/market-research-reports/commercial-real-estate-industry/>
5. The future of commercial property considering the COVID-19 pandemic <https://agentblog.nationwide.com/commercial-insights/the-future-of-commercial-property-considering-the-covid-19-pandemic/>