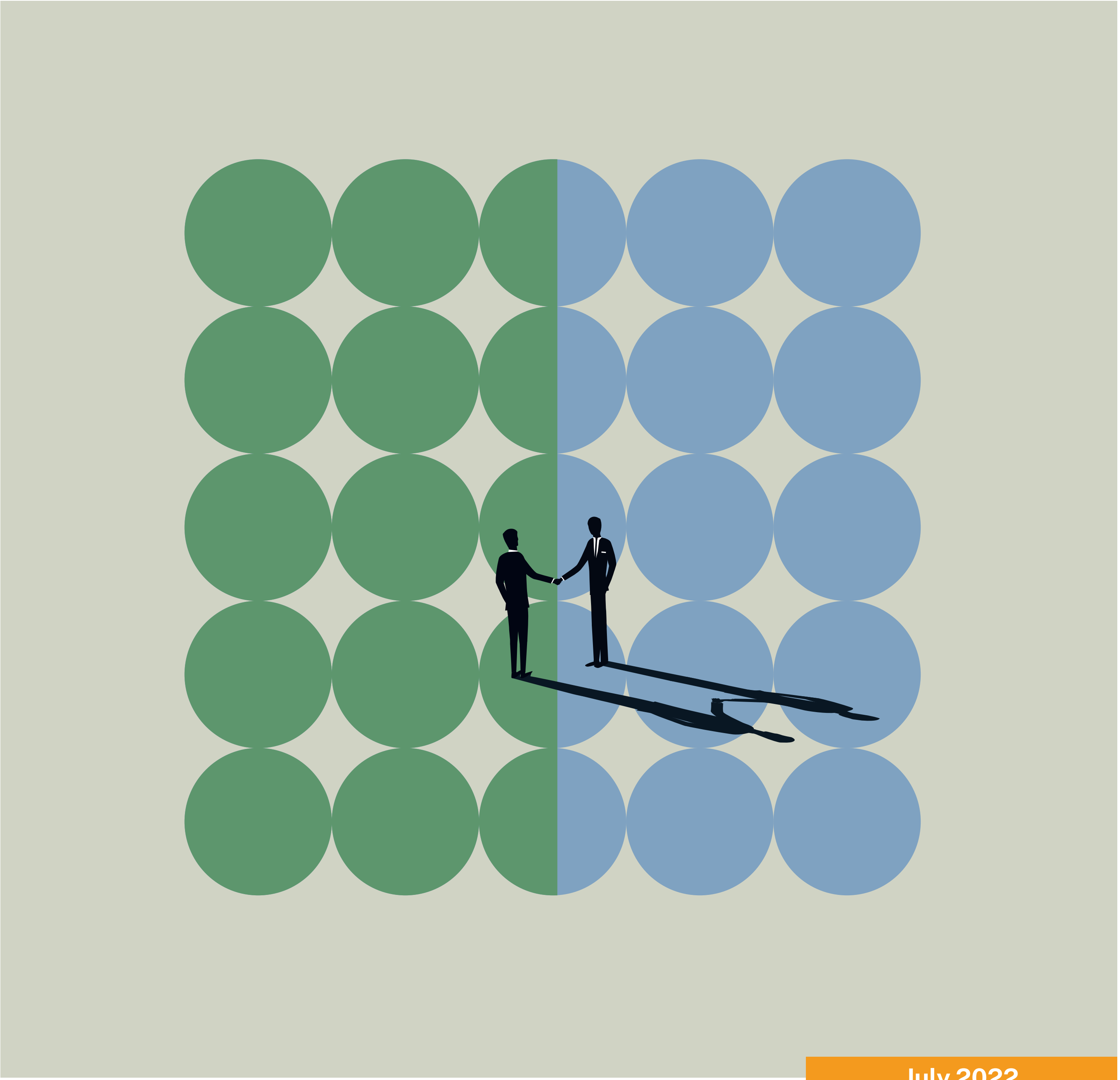
2022 M&A TRENDS
FOR ENGINEERING AND CONSTRUCTION

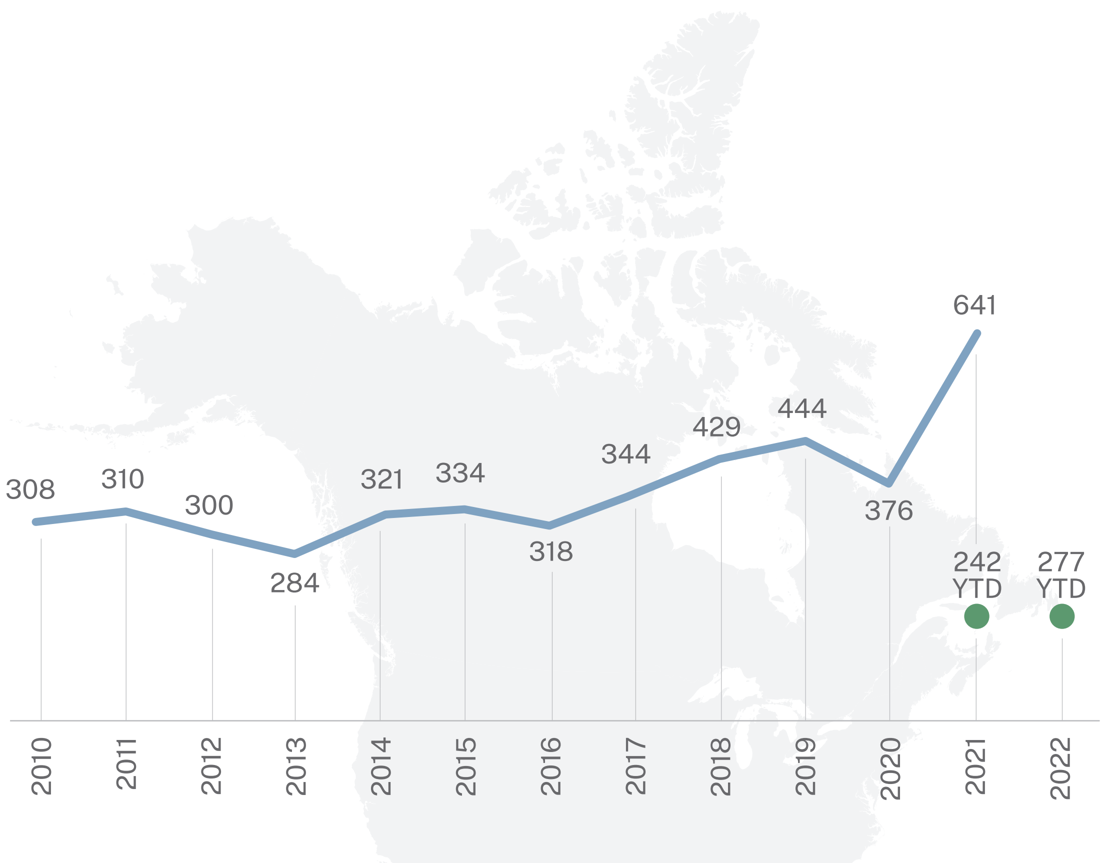


July 2022

EXECUTIVE SUMMARY

2021 represented a record year of global mergers and acquisitions (M&A) activity, with more than 38,000 M&A transactions, well above the previous high in 2015 of over 31,000 deals, according to Pitchbook data. The engineering and construction (E&C) industry was no different, with a record number of transactions announced.

Figure 1: U.S. and Canada E&C Deals 2010-2022 YTD



YTD thru 05/31/22

Source: CapitalIQ

There has been a steady long-term increase in M&A activity in the E&C industry over the past decade, climbing 40% year over year in 2018 and 2019 from the pace of 2013-2017, slowing in 2020 (primarily as a result of COVID-19), and surging in 2021 as delayed deals from 2020 came back to market. Increased deal volume in 2021 (specifically the outsized level of activity in the second half of 2021) was also driven by sellers who brought forward opportunities that might have taken place over the next few years, worried about the risk of changes to capital gains laws and inspired by frothy valuations.

This year we see sustained M&A activity in the industry, which should represent a return to the pre-pandemic trend, as private equity firms continue to look to the E&C market for opportunities, E&C firms acknowledge the limits of organic growth and pursue growth through M&A as a strategy, and aging owners look to transition out of their businesses.

Tim Paulson, co-chief executive officer at Emery Sapp (an employee-owned heavy civil contractor), says his M&A list of business owners interested in discussing a transition is double or triple its usual size. “I’ve been waiting for what I’m calling a decade of succession for a while. There are continued requests to further conversations about the next steps,” he told FMI when discussing ownership transition.

The 2022 FMI M&A Survey showed that two-thirds of firms say they are more likely to make an acquisition in 2022 than in 2021.

On the other side of the transaction, only 55% of respondents said that acquisitions were a current part of their strategy. While this is still more than half of all respondents, it represents the lowest level recorded since we began the survey, as buyers are watching inflation and high valuations and remain wary of any hiccups in the economic marketplace. Supply chain issues could also begin to hurt valuations (as projects are delayed and impact near-term earnings) or keep some buyers focused on their operational challenges.

For the deals that are taking place, transactions less than $500 million in value have dominated the deal landscape over the past several years as buyers look to execute on strategic plans, whether expanding the geographic footprint or range of capabilities, targeting new clients and markets, or increasing headcount and talent in a tight labor market.

THE 2022 FMI M&A SURVEY SHOWED THAT TWO-THIRDS OF FIRMS SAY THEY ARE MORE LIKELY TO MAKE AN ACQUISITION IN 2022 THAN IN 2021.

Overall, macrotrends, such as aging infrastructure, increased environmental concerns and regulations, the ongoing energy transition, and gains in construction productivity from increased use of technology, suggest that M&A activity will continue to accelerate in the E&C industry, even if 2022 represents a decline from 2021 record levels. This paper dives into several of these key trends.

In the short term, we expect solid activity through the rest of 2022 and sustained M&A activity for the next several years, with some buyers increasing due diligence and scrutiny of assets in the near term, given the mixed signals in the wider economy and operational issues caused by supply chain challenges.

TRENDS WE ARE WATCHING

Increased Talent Shortage Leading to Strategic Acquisitions

Once a rare occurrence, job openings exceeded hires for the fifth month in a row in April, per an Associated General Contractors of America (AGC) analysis of the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey. Consistent with the tight labor market, limited supply of skilled and craftworkers ranked as the top risk E&C firms face in the 2022 FMI/AGC Risk Survey. Acquisitions are increasingly seen as an avenue to acquire labor resources and bridge leadership voids as firms expand into new regional operations or new capabilities.

"Many firms are finding that the ability to execute on their strategy and grow organically is hindered by a lack of available resources," said Alex Miller, managing director of FMI Capital Advisors. "You can't expand into a new market or grow services if there are no resources available for hire. This does not just apply to the labor shortage in the field, but also project management, estimating, engineering and even key leadership roles. Acquiring both labor and talent has been a key driver in a majority of our closed E&C transactions over the past 18 months."

Drilling down on strategic drivers for buyer-side acquisitions, "acquiring additional personnel (management or labor) resources" ranked second among respondents in the 2022 FMI M&A survey. Nearly 20% of respondents ranked it highest.

"When we look at mergers and acquisitions, we are looking at one thing: people. This is all about talent," said Paulson at Emery Sapp.

This also means that due diligence into the labor talent resources is becoming increasingly important in M&A transactions. It seems somewhat obvious, but a history of solid job profitability is a "reflection of the kind of people you are hoping to go along with an acquisition," said John Petersen, chief financial officer at ACCO Engineering Systems. "If you see good, long tenure and consistent job profitability, it's a good sign. We have seen companies with inconsistent profitability and with, for example, turnover from poor estimators, which is the flipside of the equation."

"Many firms are finding that the ability to execute on their strategy and grow organically is hindered by a lack of available resources."

Alex Miller, Managing Director at FMI Capital Advisors

Need for Environmental Services and Disaster Recovery

For the first time on record, 2021 saw four individual weather events that each topped $20 billion in economic losses. Of those, Hurricane Ida caused $75 billion of damage to the Northeast, and the winter storm that caused widespread power outages in Texas cost as much as $25 billion. As a result, firms addressing the need for increased resiliency of infrastructure and firms who should be that are addressing the disasters of today are seeing high market demand, which in turn is driving M&A activity in the E&C industry.

Tetra Tech has been focused on environmental sustainability and waterway infrastructure for decades and has seen increased demand in recent years from commercial and government clients as it prioritizes investments in environmental infrastructure and resiliency. “We never considered ourselves an ESG company until it became the term to use,” explained Steve Burdick, Tetra Tech’s chief financial officer. Tetra Tech is an example of a firm that has relied on specialty acquisitions in recent years to augment and expand its capabilities in environmental services and sustainable infrastructure, such as its recent acquisitions of Piteau Associations, a provider of geotechnical, water management and environmental consulting services, and Axiom Data Science, an informatics and software development firm for ecological, geological and ocean sciences.

There was an uptick in M&A activity in 2021 around environmental services, both by private equity and strategic players in the E&C space.

“We are seeing increased interest from private equity firms and domestic and international acquirers seeking to capitalize on disaster mitigation and recovery trends, particularly in flood-prone areas in the Southeast and Gulf areas of the country,” said Ryan Foley, managing director at FMI Capital Advisors. “Those contractors providing remediation, insurance-driven home rehabilitation and coastal restoration can expect to see inbound M&A inquiries in the years ahead.”

FMI CASE STUDIES IN ENVIRONMENTAL SERVICES TRANSACTIONS

LECON, INC. ESTABLISHED 1988

has been acquired by

res

FMI Capital Advisors

SELL-SIDE ADVISOR

RES, a private equity-backed entity focused on environmental mitigation, stormwater, water quality, and climate and flooding resilience projects, acquired LECON, a Houston-based leader in flood mitigation, in 2021.

RECON Remedial Construction Services, L.P.

a portfolio company of

OAKTREE

has been acquired by

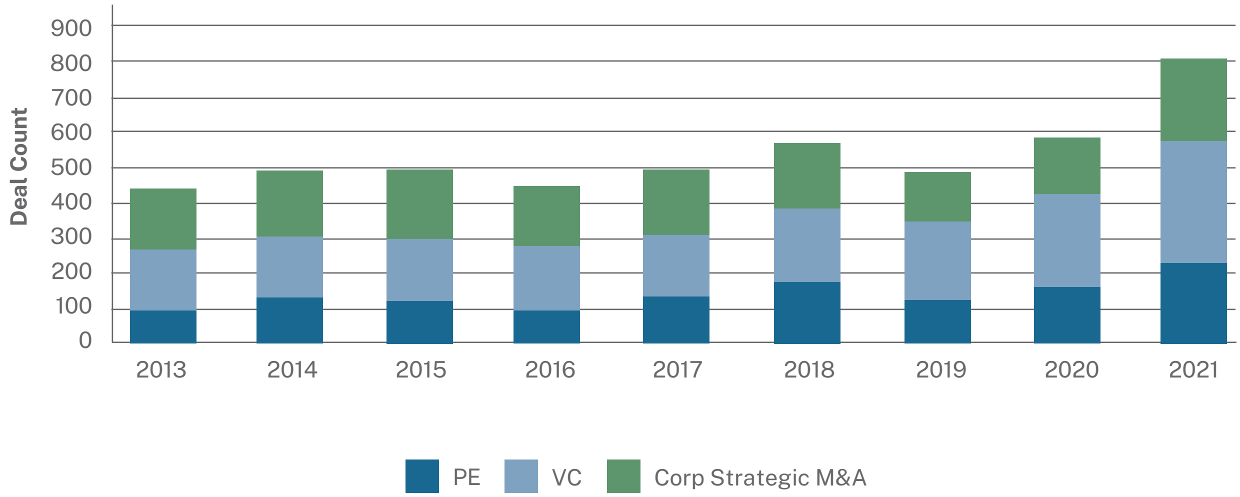
KELLER

FMI Capital Advisors

SELL-SIDE ADVISOR

Keller, the world’s largest geotechnical specialist contractor, acquired RECON Services, Inc., a specialist geotechnical environmental remediation and industrial services contractor, gaining the capacity to serve industrial clients, many in the petrochemical sector.

Figure 2: Private and public M&A activity around environmental services surged in 2021



Source: Pitchbook

The $1.2 trillion Infrastructure Investment and Jobs Act (IIJA), signed into law in 2021, prioritizes projects that help the U.S. address this growing issue, with $65 billion set aside for clean energy transmission, $15 billion set aside for road and bridge projects promoting low-carbon mobility, and over $50 billion earmarked for projects that make infrastructure resilient to climate change. Federal funding will help drive this effort, and we see evidence that both strategic buyers and private equity are looking to capitalize on this expected spend, creating a unique opportunity for technical specialists in the E&C industry.

Significant Demand for Alternative Energy

The push toward renewable energy and decarbonization goals is also driving major interest from both private equity firms and strategic buyers looking to diversify their existing services around power generation and energy use.

Utility-scale solar, wind, hydro and other renewables now account for 21% of all electricity generation, while solar and wind were projected by the Environmental Protection Agency to account for 70% of new capacity in 2021. Renewables-focused engineering, procurement and construction (EPC) companies have thus been popular targets for buyers, with sales of Blattner Holding Group ($2.7 billion), Solv, (the Renewables Services division of Swinerton Builders), and CS Energy in 2021.

Increased generating capacity from renewable sources has also created demand for the continued services of these assets, resulting in transactions like Mortenson Energy Services, LLC, which was acquired by Pearce Renewables to grow its renewables services capabilities to the installed asset base across the U.S. "The opportunity to serve the ongoing needs of the growing (and now aging) installed base of wind, solar and related distributed energy resources is creating a very tight M&A market," said Russell Clarke, vice president at FMI Capital Advisors. "This is due to larger players looking to buy scale and new entrants looking to properly position for critical services on the front end of a multidecade infrastructure deployment around renewables and the decarbonization of the power sector."

As you follow the electron further down the value chain, we see energy efficiency service providers and mechanical, engineering and plumbing (MEP) services firms continuing to combine across many end markets as the ability to vertically integrate and serve the holistic needs of a client from planning a project all the way through ongoing service gains popularity. The sale of CMTA, a national consulting engineering firm and energy service company (ESCO) focused on energy-efficient and net-zero buildings, by Legence (Therma Holdings, at the time of acquisition), a specialty MEP services company, is a prime example of the vertical integration of energy efficiency solutions and adjacent services with traditional MEP construction and maintenance services. "ESCOs have always been positioned well, but for today's industry drivers, they are ahead of the game," said Tim Huckaby, managing director at FMI Capital Advisors.

CMTA

has been acquired by

THERMA HOLDINGS

a portfolio company of

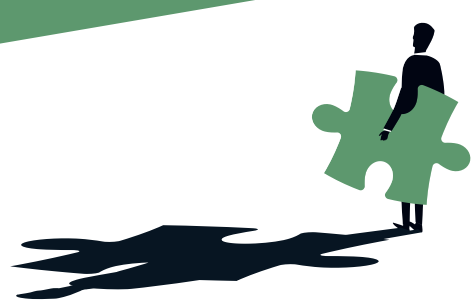
Blackstone

FMI Capital Advisors

SELL-SIDE ADVISOR

"Adjacent providers up and down the value chain are looking to acquire expertise around energy efficiency, distributed energy resources, and building optimization and performance as they aim to expand value delivered to both existing and new clients."

Tim Huckaby, President, FMI Capital Advisors



Aging Infrastructure and the Deployment of Funds

Civil infrastructure was identified as the market that will see the most activity in the next 12 months by a third of respondents in the FMI M&A survey. The IIJA funds will be a catalyst to addressing aging infrastructure and will fuel an increase in E&C M&A activity, judging by deal activity following previous large federal infrastructure programs.

While traditionally we have seen an uptick in M&A activity for firms addressing traditional civil infrastructure, such as roads and bridges (which are apportioned $110 billion of the IIJA), we expect to see increased M&A across other civil infrastructure sectors as well, including:

- **Water**, which has a $55 billion allocation for clean water projects.
- **Dredging**, under the $16 billion allotment for improvement of ports and waterways.
- **Rail**, with $78 billion allocated over the next five years to support infrastructure and multimodal and freight transportation.
- **Utility and telecom**, with $65 billion set aside for clean energy transmission and electric grid infrastructure.

We also see increased M&A activity and funding toward emerging growth sectors, such as intelligent transportation and electrical vehicle (EV) charging infrastructure, with $7.5 billion earmarked under IIJA for building out EV charging infrastructure and developing alternative fuel corridors across the U.S. "The large-scale programmatic deployment of smaller-scale EV charging infrastructure is presenting many opportunities and related challenges across the emerging landscape, leading to a very active M&A market for current providers," said Andrew Henderson, director at FMI Capital Advisors.

"As that work (IIJA Funded Projects) comes out to bid, there is obviously going to be greater demand for our capabilities, and one of our key priorities will be focused on utilizing the technology and tools we've developed to provide our clients with the best design solutions for their sustainable infrastructure projects."

Steve Burdick, Chief Financial Officer, Tetra Tech

Other Notable Trends

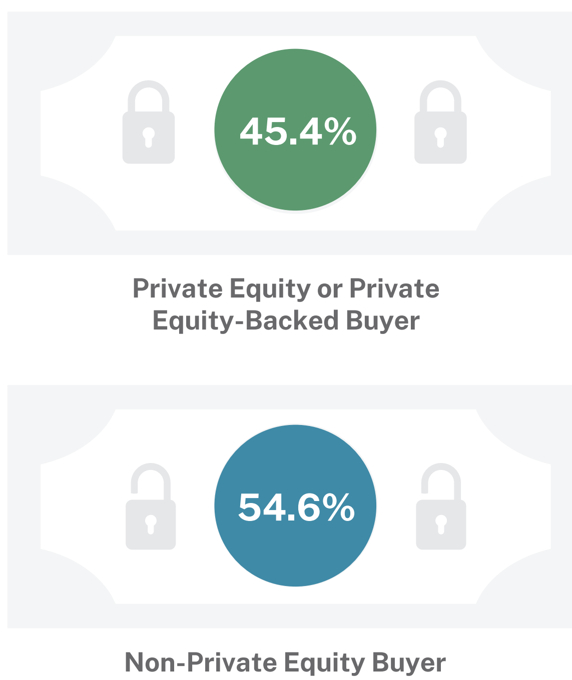
Consolidation of Select Building Services. Long-term consolidation of heating, ventilation, air conditioning, and refrigeration (HVACR) services means several large buyers are now competing for a decreasing number of quality assets, especially in the commercial and institutional markets. Firms of scale with a significant percent of revenue tied to preventive maintenance and retrofit of existing assets still demand a high premium. The residential services segment remains ripe for consolidation with higher fragmentation characteristics today, along with other segments like fire protection/life safety, roofing/building envelope and select building controls/systems providers.

> **"OUR M&A PIPELINE FOR TRADE CONSTRUCTION AND SERVICE FIRMS, SUCH AS MECHANICAL AND ELECTRICAL SERVICES, CONTINUES TO BE ROBUST."**
>
> *Ryan Foley, Managing Director, FMI Capital Advisors*

M&A activity also remains high for traditional E&C firms serving the building sector, specifically for design and construction management/project management firms as well as specialty trades, as noted by transactions such as Southland acquiring Brandt, EMCOR acquiring Quebe Holdings and Comfort Systems USA acquiring Ivey Mechanical. "Our M&A pipeline for trade construction and service firms, such as mechanical and electrical services, continues to be robust," said Foley. "Despite hiccups in financial performance in the first quarter of the year, representing productivity and labor constraints from the pandemic, we continue to see record backlogs in the trades despite present economic and inflationary concerns."

Continued Presence of Private Equity. Recognizing many of the emerging trends impacting the E&C market, such as increased need for environmental and building services, the energy transition and aging infrastructure, private equity firms have continued to increase activity in the E&C sector over the past decade, and the momentum continues to grow. "Many private equity firms are attracted to the investment opportunities that long-term trends impacting the built environment provide, as well as an attractive structural industry framework for investment, with increased governmental regulation and the fragmented nature of the E&C marketplace," said Miller. "We have seen a steady and consistent increase in private equity interest in the E&C market, which should only continue to grow as our clients create solutions to address these macrotrends impacting our world."

Figure 3: Percent of 2021 U.S. and Canada E&C Deals

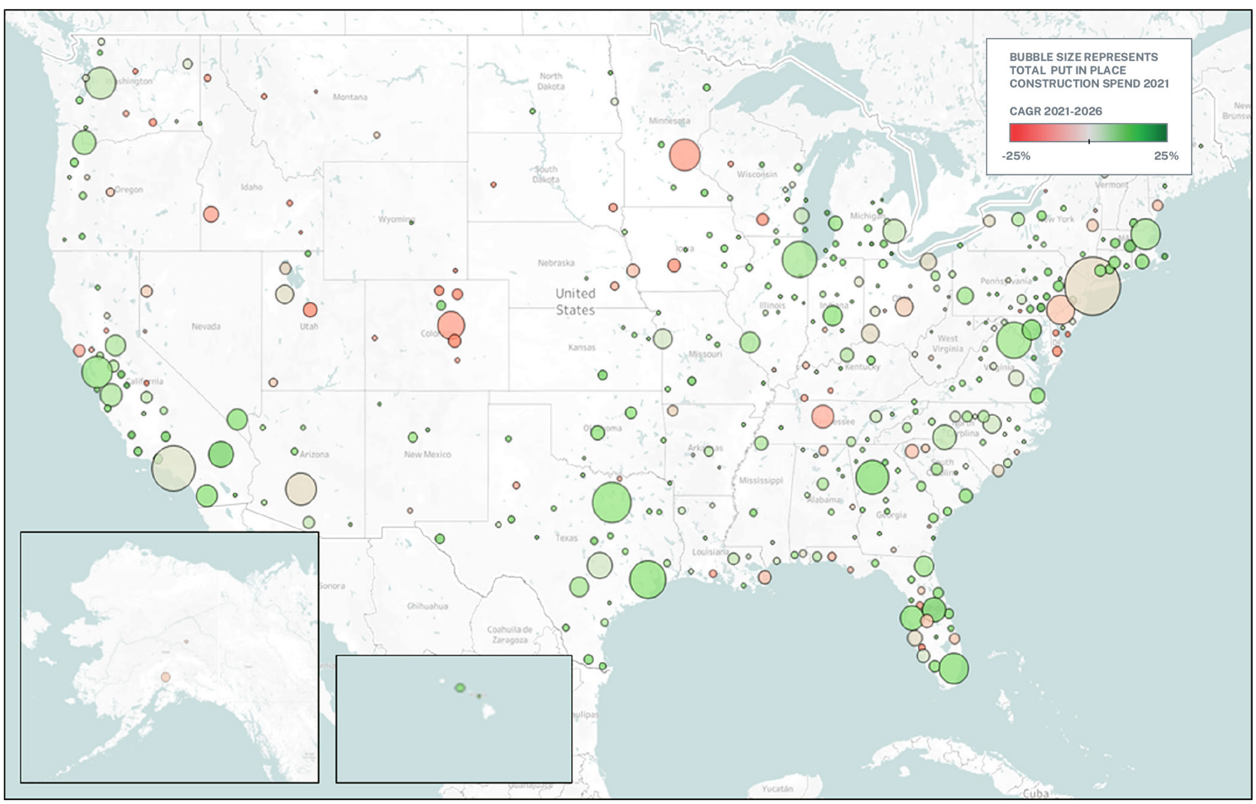


Source: CapitalIQ

> **“Currently 1 in 3 construction dollars are spent in just 12 of the almost 400 metropolitan U.S. markets. Adding the next 10 represents 50% of construction spending in the U.S. Over the past 25 years, this trend — increasing urbanization and concentration of construction spending has accelerated significantly.”**
>
> Jay Bowman, Partner, FMI Corporation

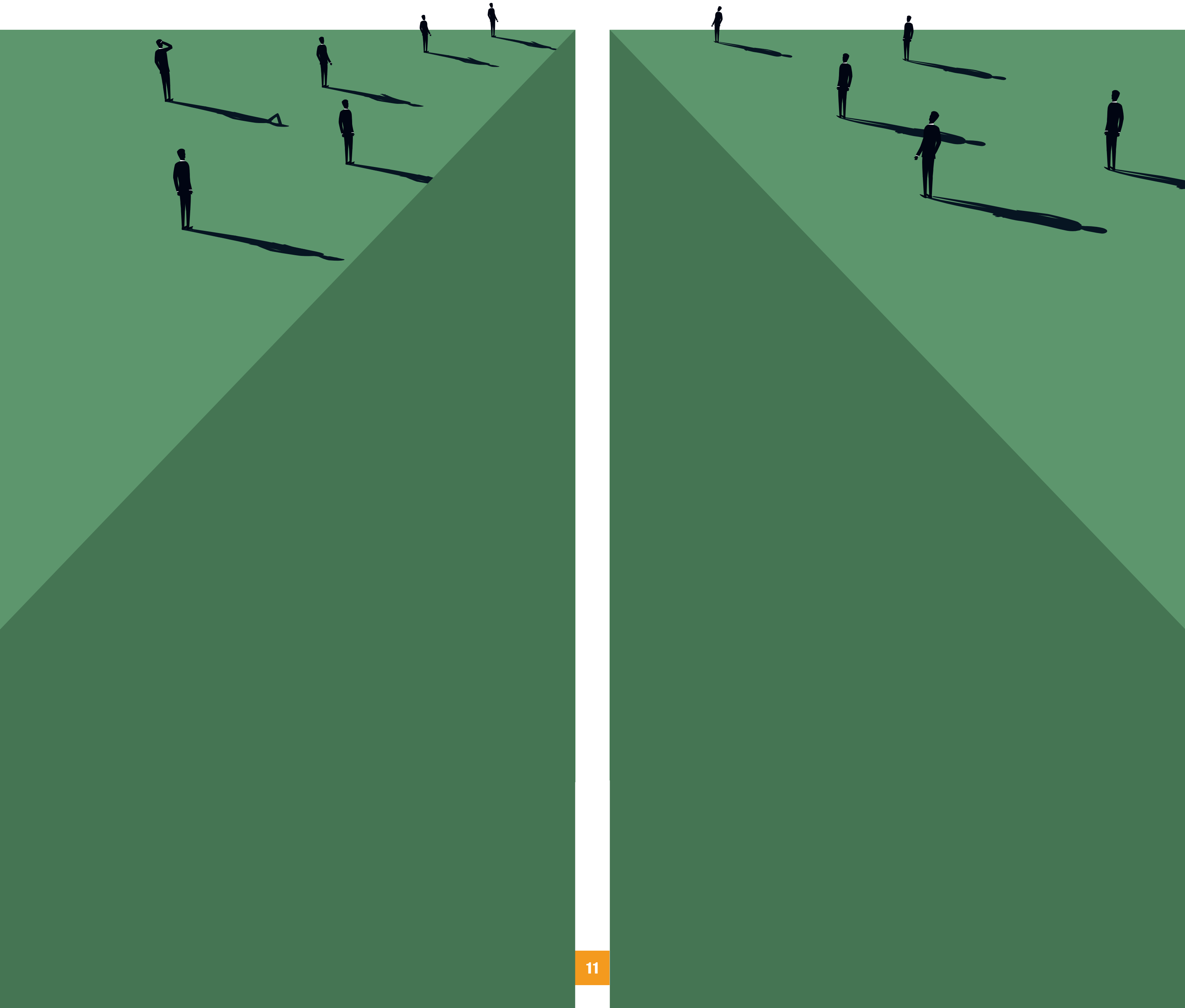
Geography Remains a Key Driver. While technology is increasingly moving construction delivery away from the project site, E&C services are still largely delivered locally, and geographic expansions continue to be a catalyst for M&A activity. Among buyers, gaining the ability to enter a new geographic market was the top driver for M&A deals, ranked first by nearly 37% of respondents to FMI’s survey.

Figure 4: Distribution of construction put-in-place spending in select markets



Source: FMI, BLS

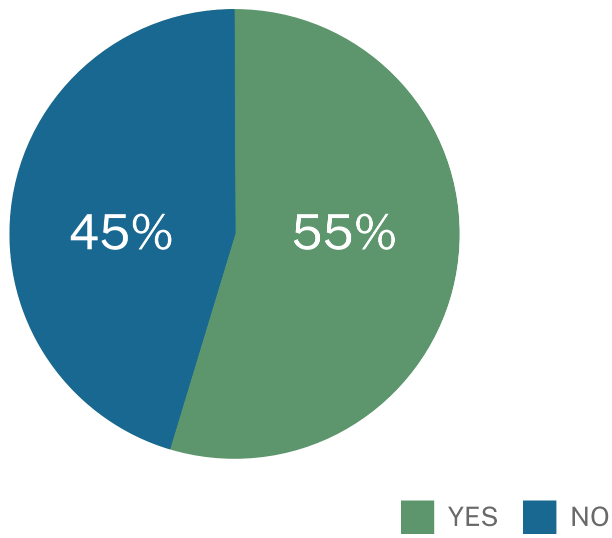
Demographics and Ownership Transfer Needs. The E&C industry remains highly fragmented and is predominantly populated with small to midsized and family-owned businesses. Many of these owners are nearing or have passed the traditional retirement age and need an avenue to transfer their ownership and step back from the business. In 2020, FMI and the Construction Financial Management Association (CFMA) completed a national survey, which found that 49% of owners intending to retire in less than five years had no plan for transferring their ownership. “In recent years, we have seen a notable increase in E&C company owners inquiring about M&A market conditions as more owners reach retirement age and seek to monetize and exit their business,” said John Steinegger, managing director with FMI Capital Advisors.



FMI'S 2022 M&A TRENDS SURVEY RESULTS

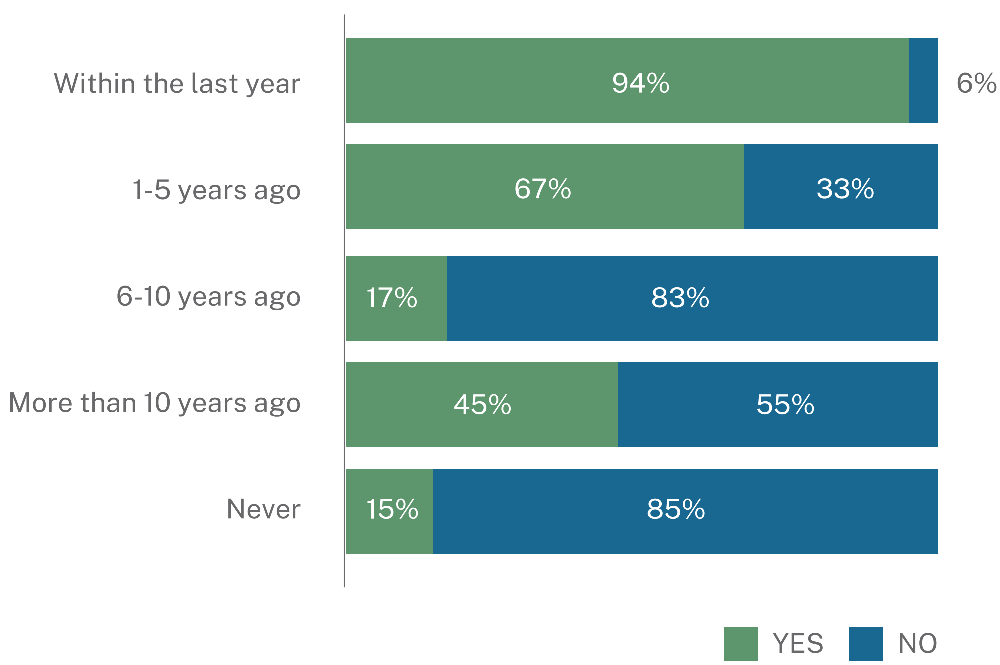
Survey participants include E&C industry firms (representative strategic buyers) with more than $100M of revenue; survey did not include private equity firms.

Are acquisitions a part of your current strategy?



Are acquisitions a part of your current strategy?

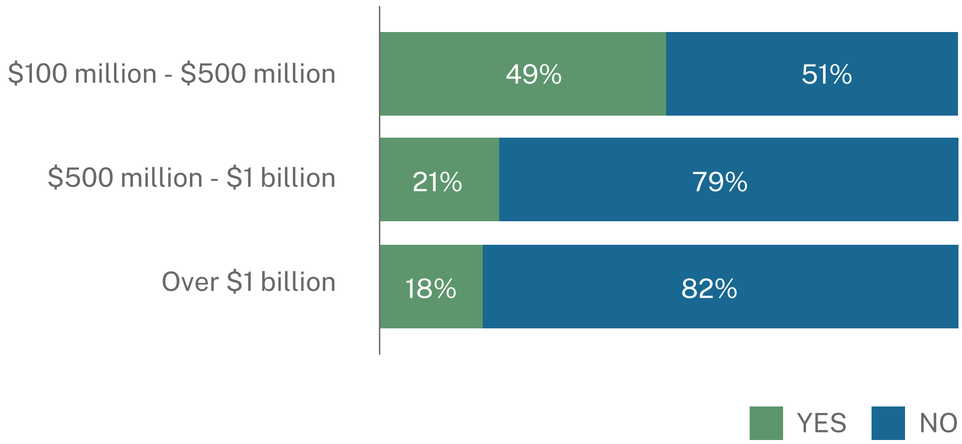
Most recent acquisition made by organization



FMI'S 2022 M&A TRENDS SURVEY RESULTS

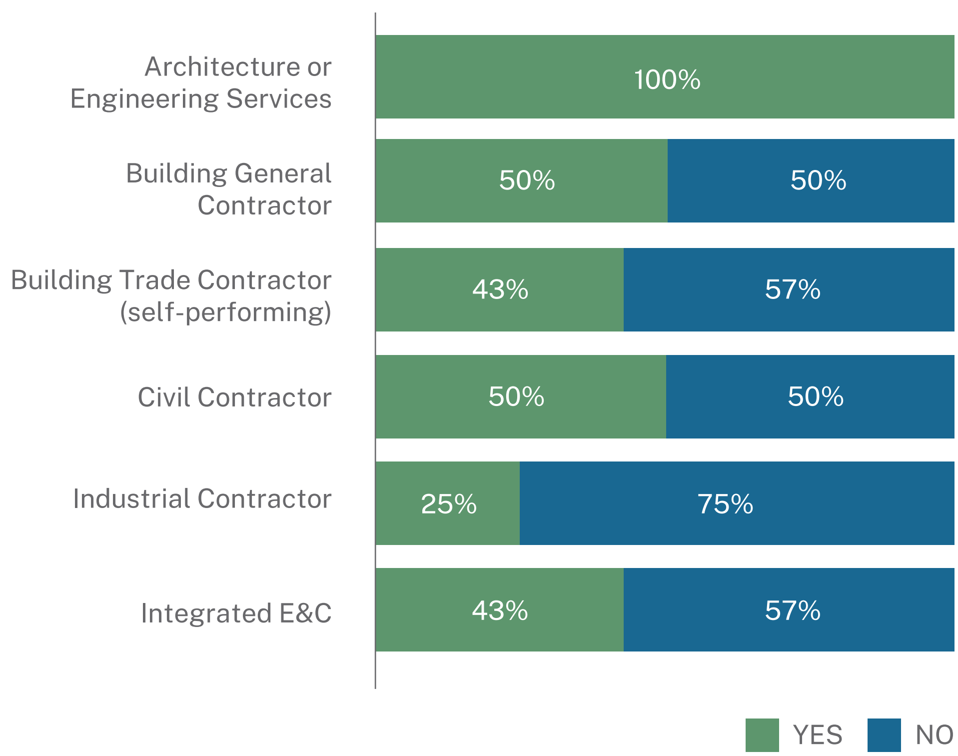
Are acquisitions a part of your current strategy?

Annual Revenue



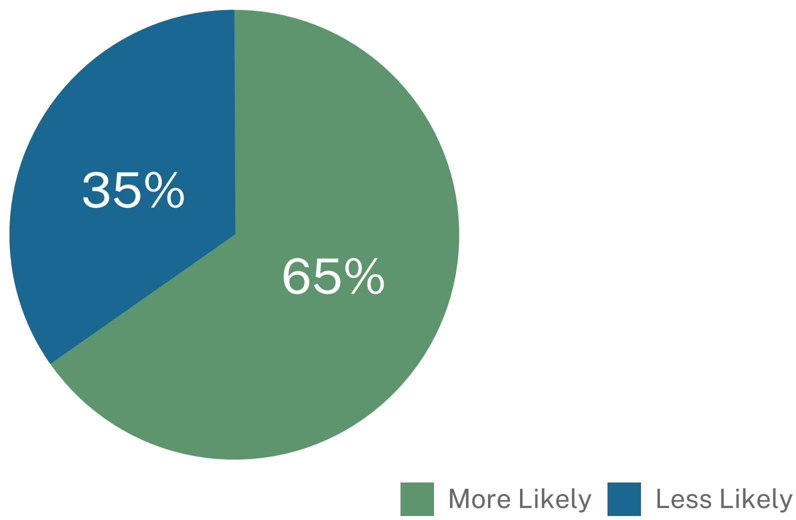
Are acquisitions a part of your current strategy?

Company Type

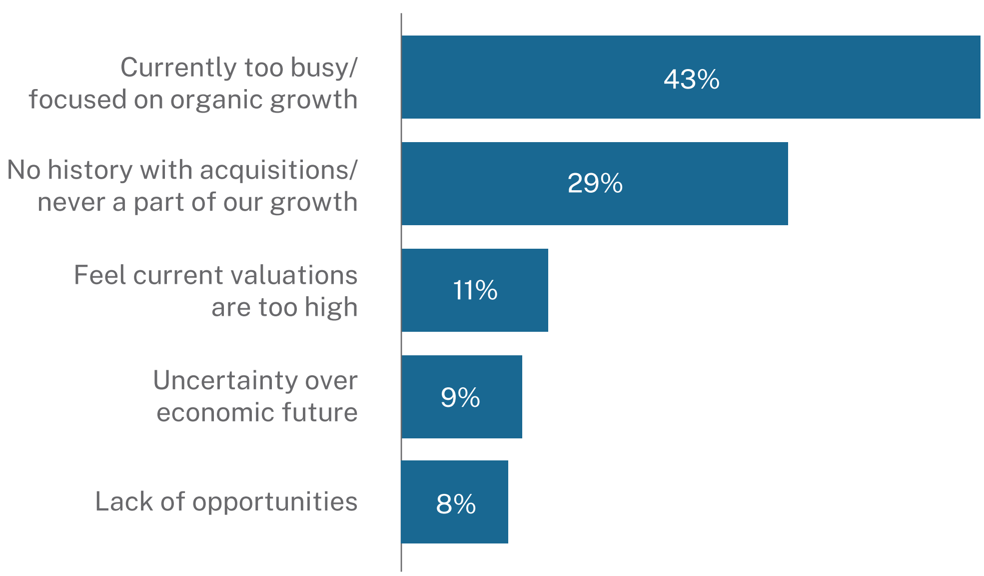


FMI'S 2022 M&A TRENDS SURVEY RESULTS

Do you believe your company is more or less likely to make an acquisition in 2022 than in 2021?

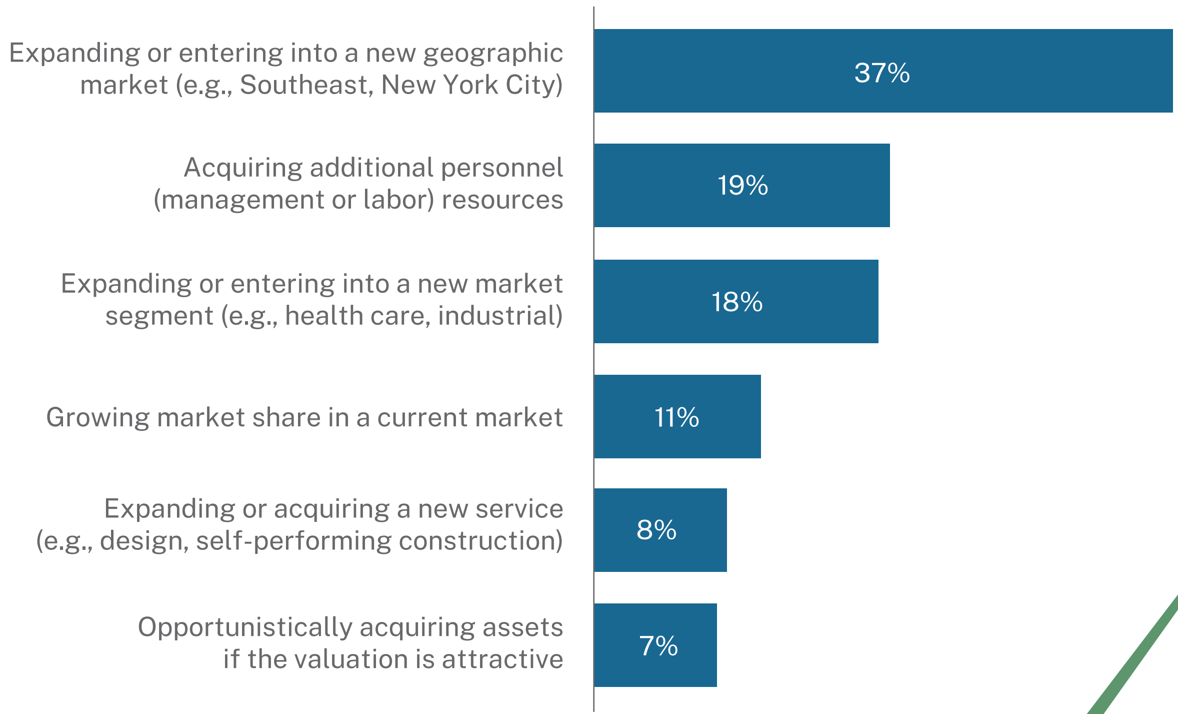


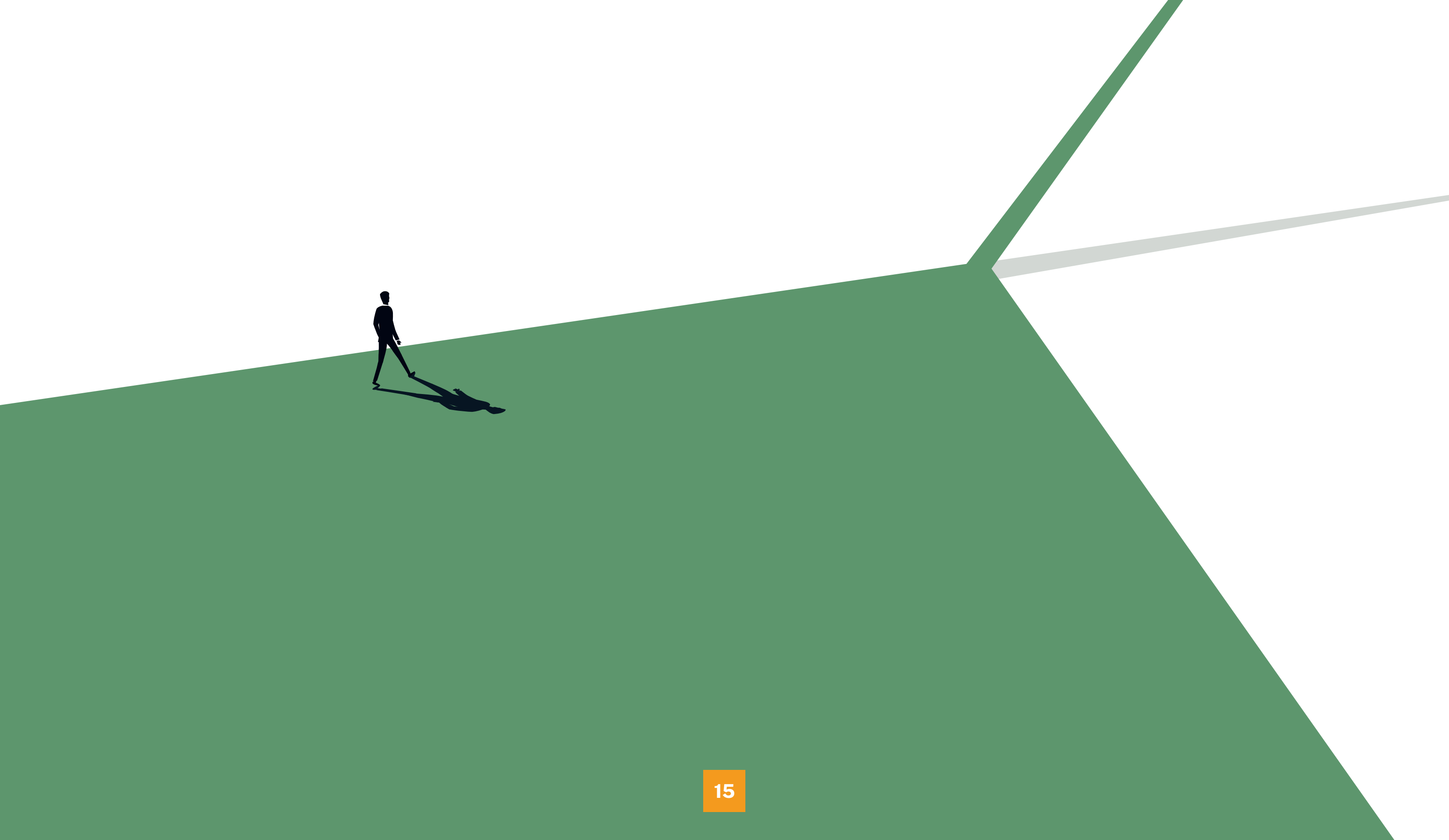
For those who answered no, please select the key reason(s) why acquisitions are not part of your current strategy:



FMI'S 2022 M&A TRENDS SURVEY RESULTS

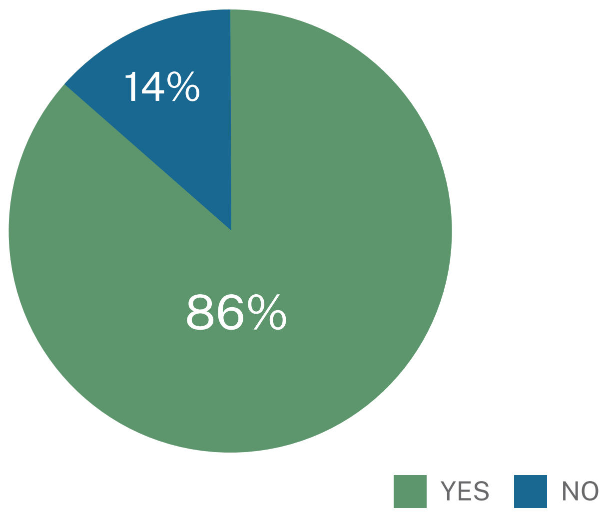
Which of the following strategic drivers are important to your current acquisition strategy?



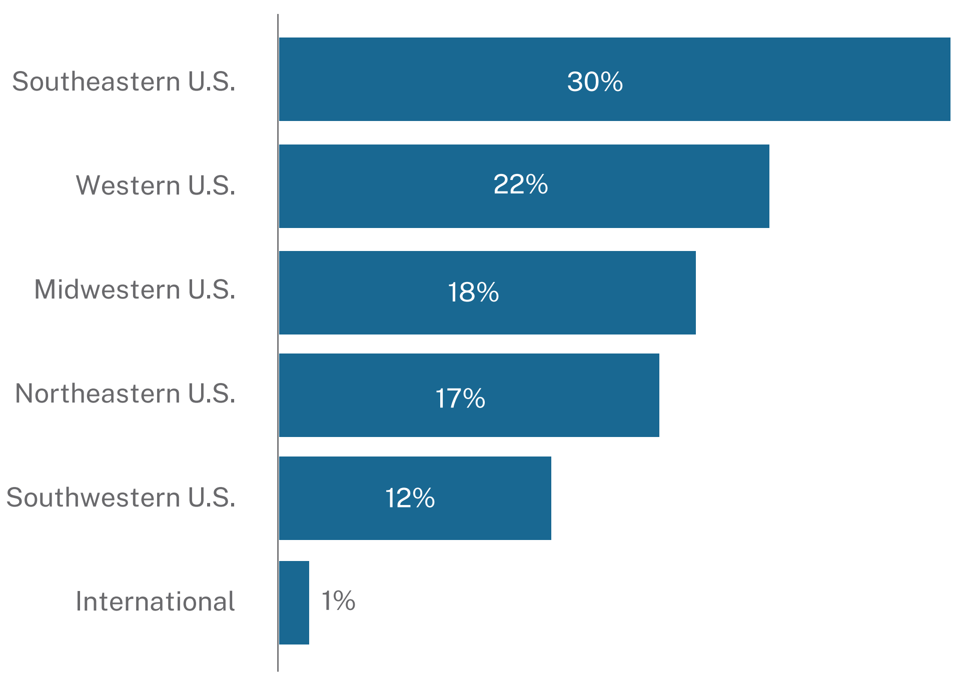


FMI'S 2022 M&A TRENDS SURVEY RESULTS

Is geographic expansion a part of your acquisition strategy?

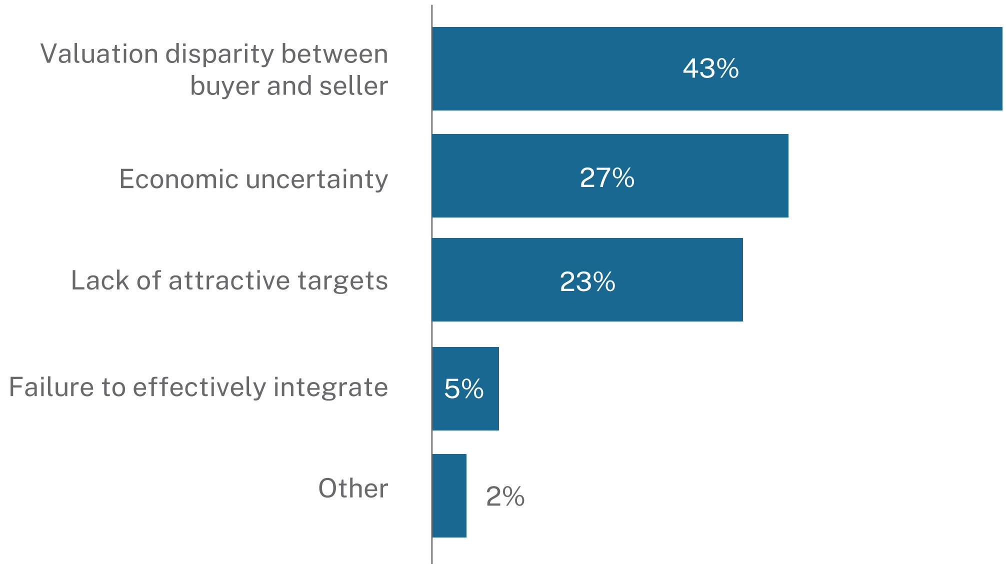


Which of the following geographies are strategically important for potential acquisitions?

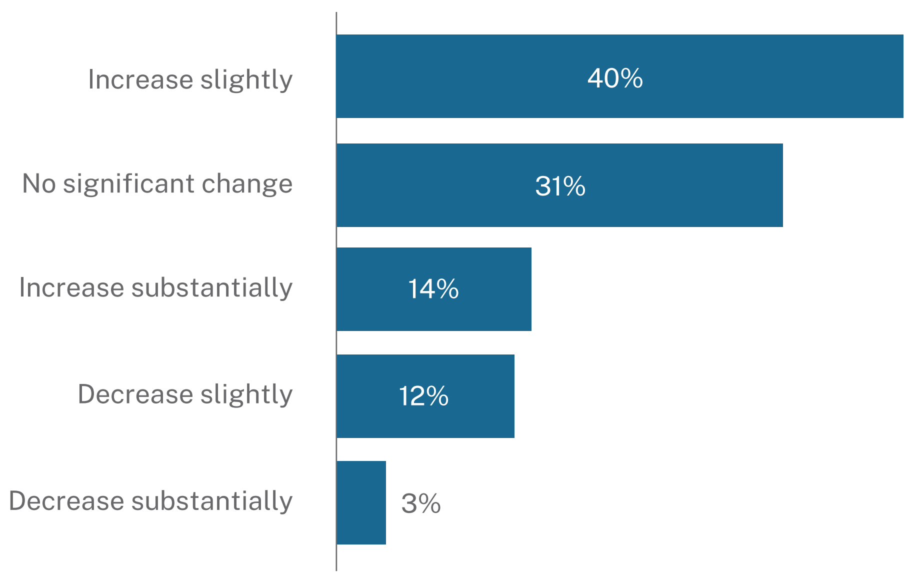


FMI'S 2022 M&A TRENDS SURVEY RESULTS

Which of the following issues are hindering your company's acquisition strategy?

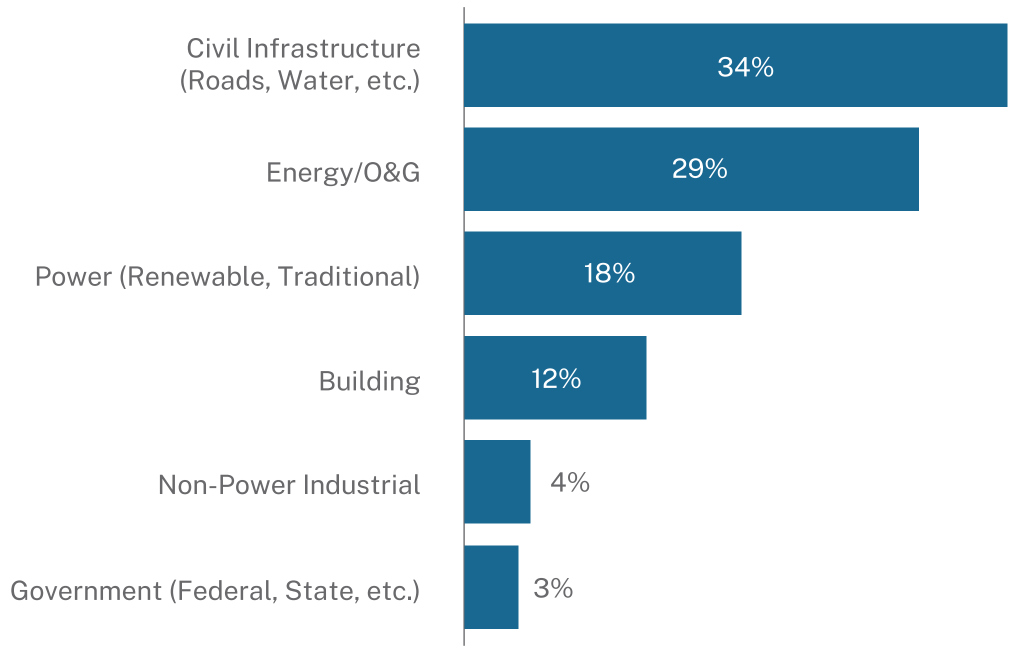


Comparing the last 12 months to the next 12 months, do you believe M&A activity in the E&C industry will:

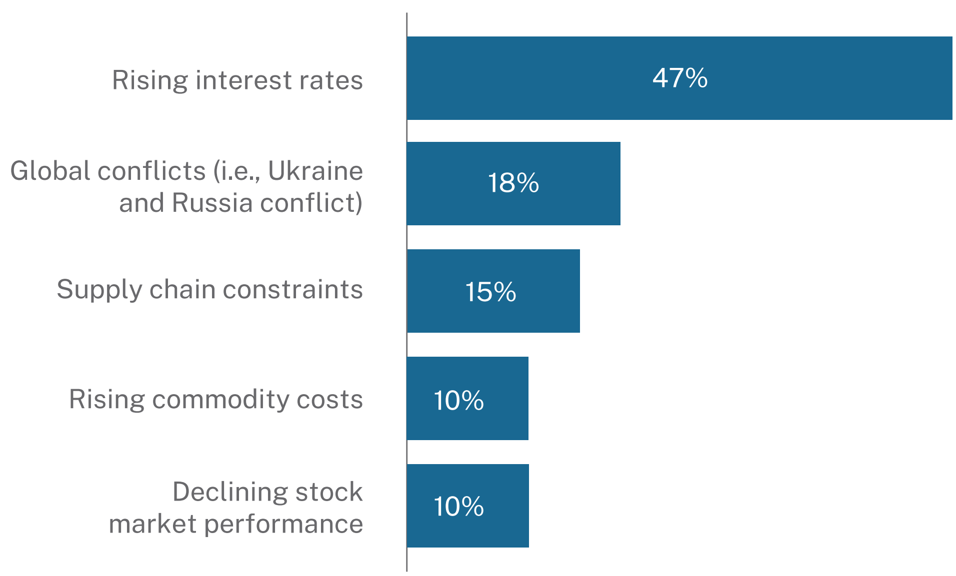


FMI'S 2022 M&A TRENDS SURVEY RESULTS

Which of the following markets will see the most M&A activity over the next 12 months?

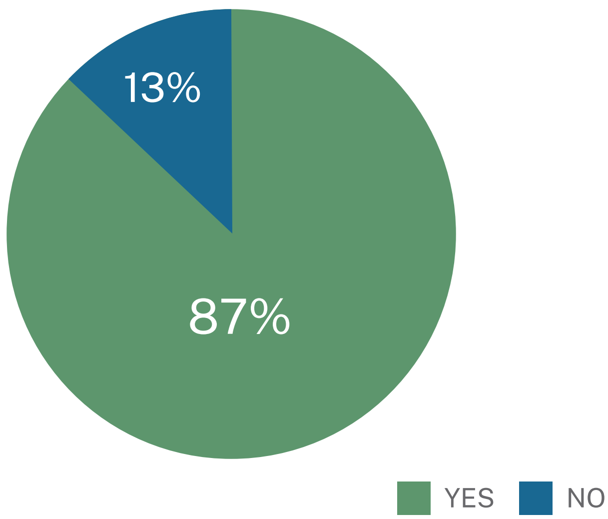


Which of the following will most likely result in less M&A activity over the next 12 – 18 months?

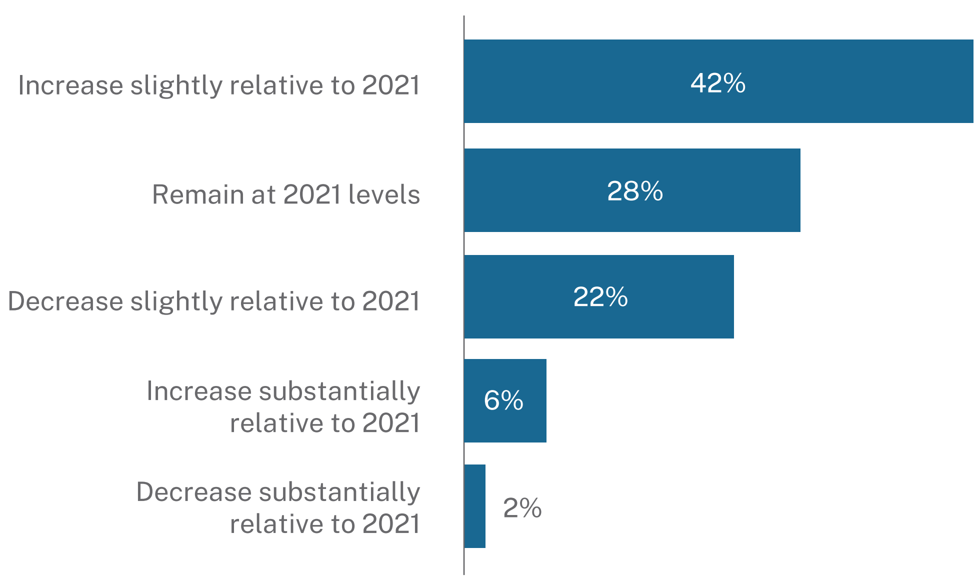


FMI'S 2022 M&A TRENDS SURVEY RESULTS

Do you believe valuations in the E&C industry have increased in the past 24 months?



Do you believe valuations in the E&C industry over the next 12 months will:



FMI Capital Advisors

FMI Capital Advisors specializes in sell-side mergers and acquisitions for the built environment.

With **more than 800** completed transactions, FMI's industry focus provides maximum value through deep market knowledge, strong technical expertise and an unparalleled network of industry relationships.

FMI Capital Advisors Contractor & Construction Services team is dedicated to helping construction and service firms in the building, industrial and civil markets.

LANDMARK
has been acquired by
GRAYCLIFF PARTNERS
FMI Capital Advisors
SELL-SIDE ADVISOR

JJ WHITE INCORPORATED
has been acquired by
CLOUGH
FMI Capital Advisors
SELL-SIDE ADVISOR

exyte
has acquired
CPS Critical Process Systems Group
a portfolio company of
WC WYNNCHURCH | CAPITAL
FMI Capital Advisors
BUY-SIDE ADVISOR

Interstate Highway Construction
has been acquired by
CLYDE COMPANIES
FMI Capital Advisors
SELL-SIDE ADVISOR

BRANDT
has been acquired by
Southland
FMI Capital Advisors
SELL-SIDE ADVISOR

LECON, INC. ESTABLISHED 1988
has been acquired by
res
FMI Capital Advisors
SELL-SIDE ADVISOR

mcclure company
has sold a majority interest to
sojitz
FMI Capital Advisors
SELL-SIDE ADVISOR

Mortenson
MORTENSON ENERGY SERVICES, LLC
has been acquired by
PEARCE SERVICES
a portfolio company of
NMC New Mountain Capital
FMI Capital Advisors
SELL-SIDE ADVISOR

RECON Remedial Construction Services, L.P.
a portfolio company of
OAKTREE
has been acquired by
KELLER
FMI Capital Advisors
SELL-SIDE ADVISOR

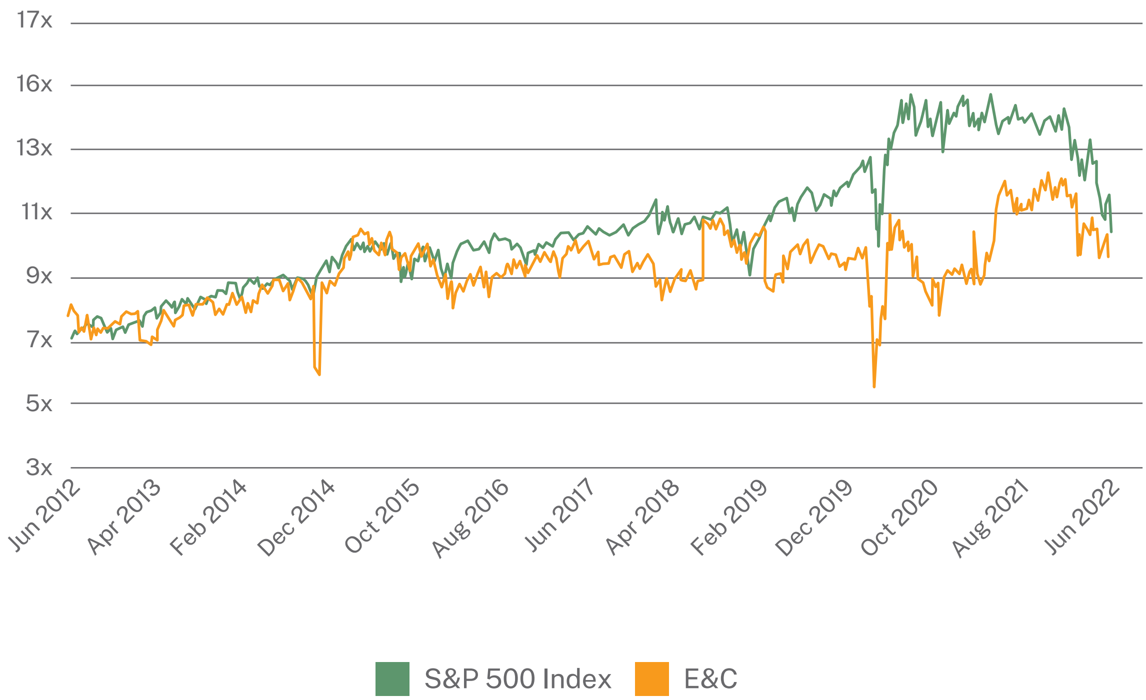
S&P
SATTERFIELD & PONTIKES CONSTRUCTION, INC.
has acquired
EAGLE CONTRACTING, L.P.
FMI Capital Advisors
BUY-SIDE ADVISOR

PCI
a business of
SKANSKA
has been acquired by
SALAS O'BRIEN | expect a difference |
FMI Capital Advisors
SELL-SIDE ADVISOR

PLUMBING STATES WESTERN MECHANICAL HEATING
has been acquired by
COMFORT SYSTEMS USA
FMI Capital Advisors
SELL-SIDE ADVISOR

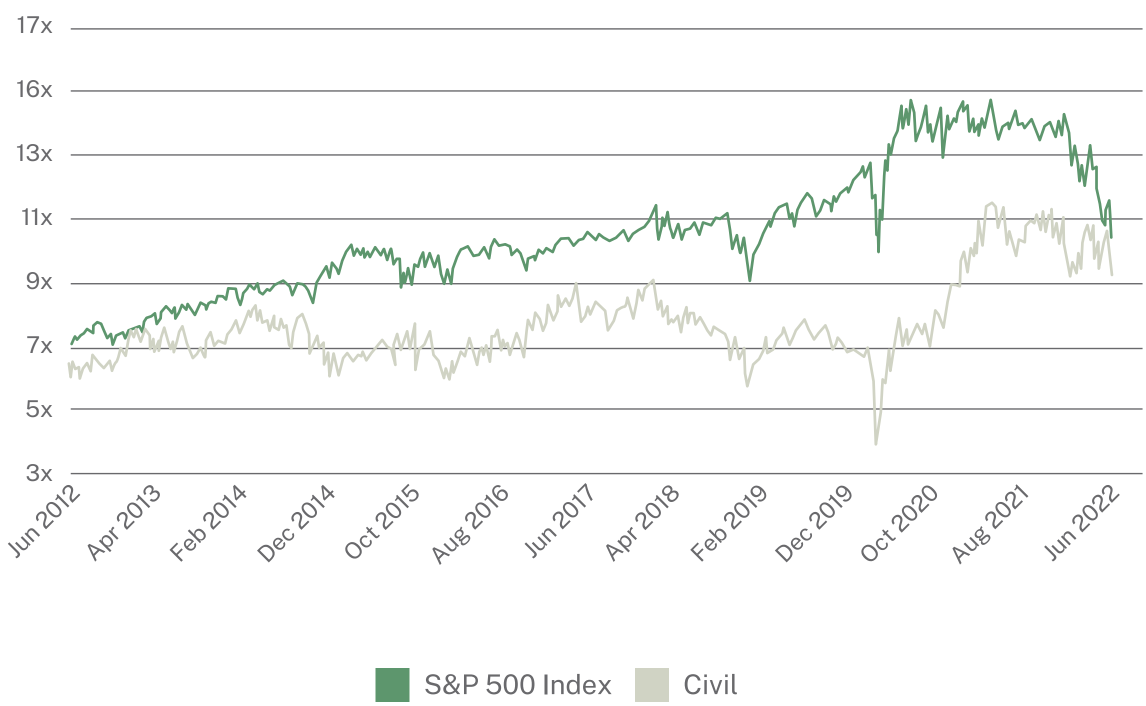
PUBLIC COMPANY VALUATION TRENDS

E&C vs. S&P 500 TEV / Forward EBITDA (10-Year Lookback)



Source: CapIQ as of June 16, 2022

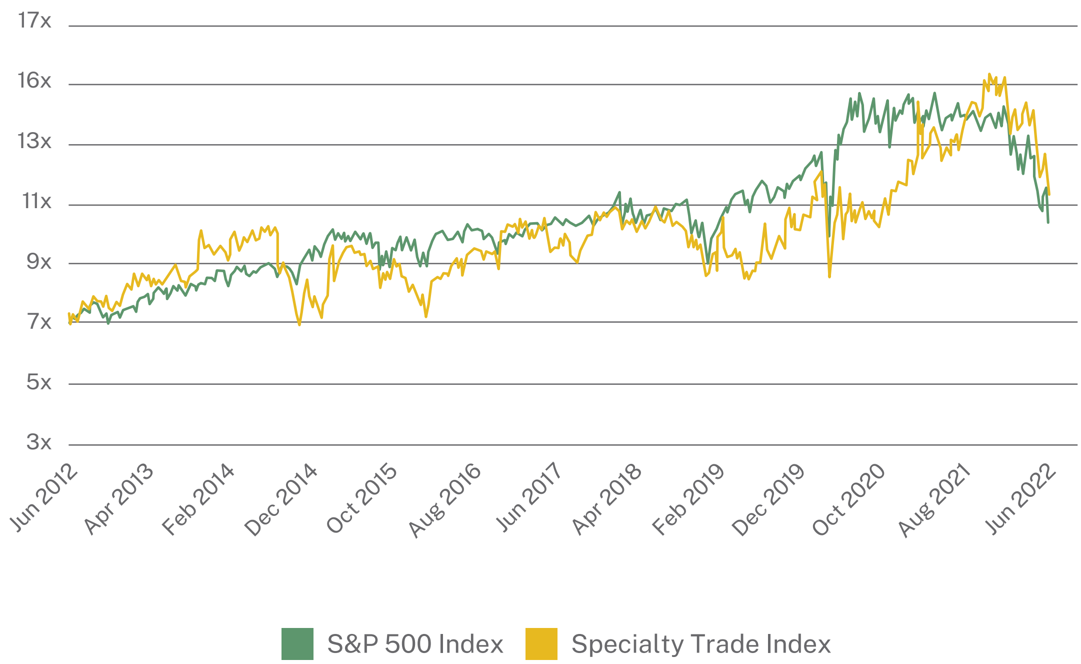
Civil vs. S&P 500 TEV / Forward EBITDA (10-Year Lookback)



Source: CapIQ as of June 16, 2022

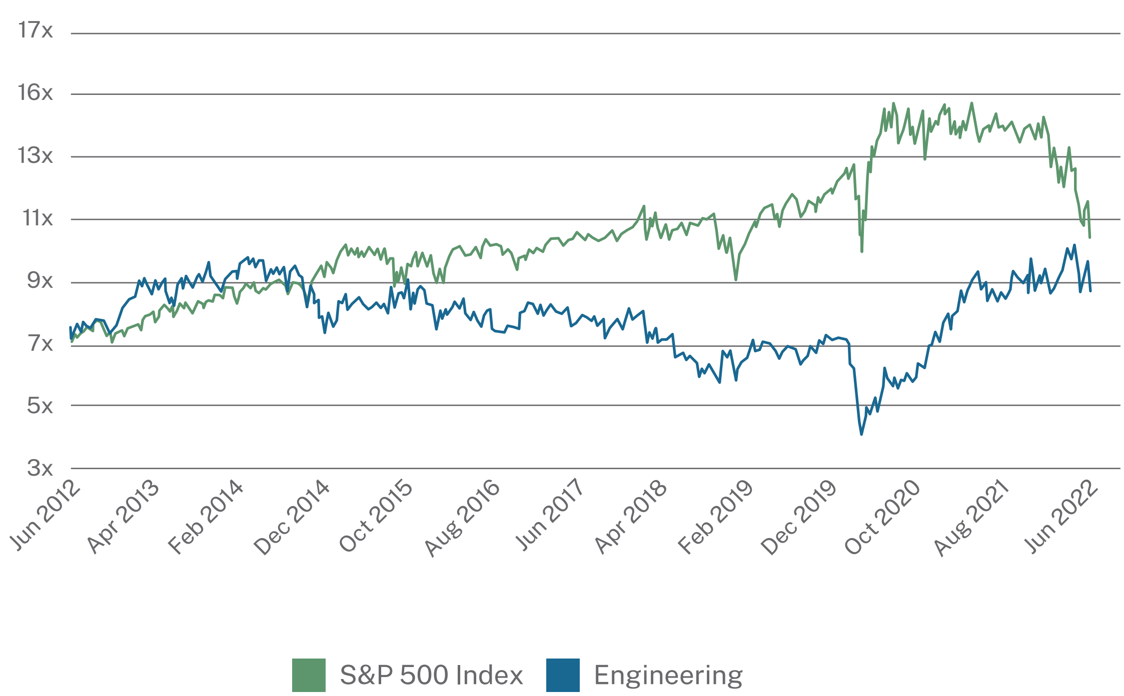
PUBLIC COMPANY VALUATION TRENDS

Specialty vs. S&P 500 TEV / Forward EBITDA (10-Year Lookback)



Source: CapIQ as of June 16, 2022

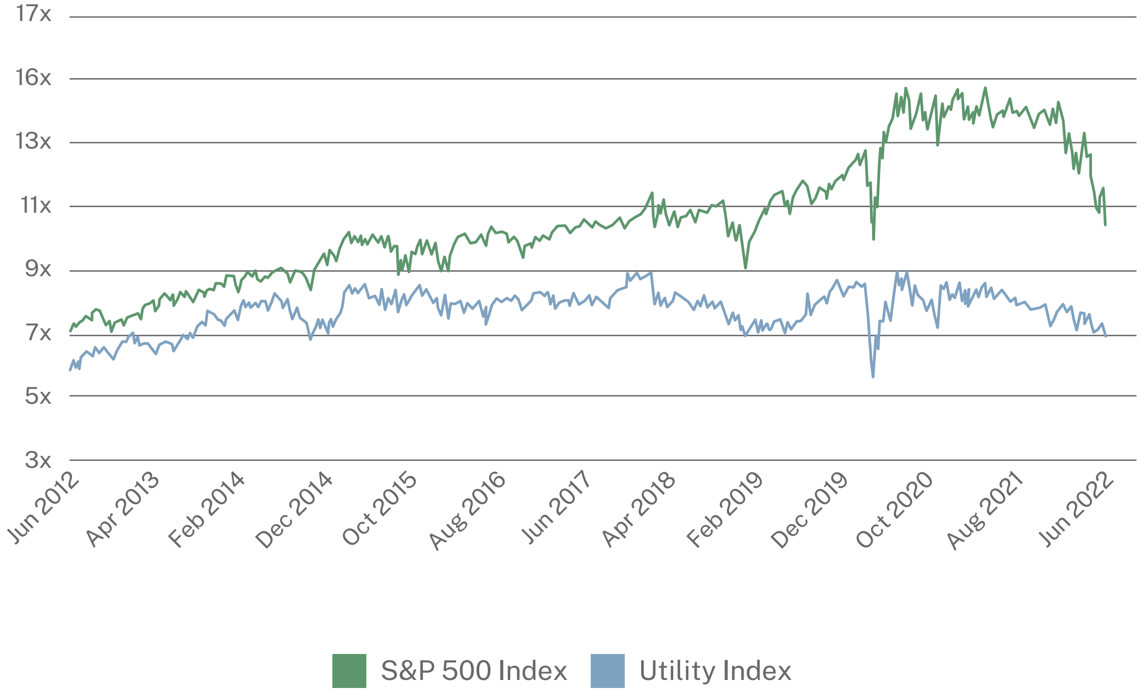
Engineering vs. S&P 500 TEV / Forward EBITDA (10-Year Lookback)



Source: CapIQ as of June 16, 2022

PUBLIC COMPANY VALUATION TRENDS

Utility vs. S&P 500 TEV / Forward EBITDA (10-Year Lookback)



Source: CapIQ as of June 16, 2022

ABOUT THE AUTHORS

Alex Miller is a managing director with FMI Capital Advisors, Inc., FMI Corporation's investment banking subsidiary. Alex focuses on mergers and acquisitions, growth strategy and ownership transfer planning for engineering and construction firms. He has written numerous articles on mergers and acquisitions trends in the E&C industry and speaks often to industry groups about overall trends, mergers and acquisitions, international activity in the U.S. construction market and ownership transfer issues. Alex can be reached at *Alex.Miller@fmicorp.com*.

Ryan Foley is a managing director whose focus is almost exclusively on serving middle-market companies with merger and acquisition transactions, private placements and public equity and debt offerings. With more than 20 years of experience, Ryan primarily serves specialty trades such as mechanical, electrical and plumbing contractors in addition to general and heavy civil companies. He can be reached at *Ryan.Foley@fmicorp.com*.

John Steinegger is a managing director with FMI Capital Advisors, Inc. who works with a variety of construction industry firms on mergers and acquisitions, valuations and ownership transfer issues. He can be reached at *John.Steinegger@fmicorp.com*.

Ryan Donnelly is a vice president and is responsible for executing merger and acquisition advisory and capital formation engagements for a variety of companies across the engineering and construction space. His work focuses on helping clients with valuations, ownership transfer issues and mergers and acquisitions, including both seller and buyer representation. Ryan can be reached at *Ryan.Donnelly@fmicorp.com*.

Denver
44 Cook Street
Suite 900
Denver, CO 80206
303.377.4740

Houston
1301 McKinney Street
Suite 2000
Houston, TX 77010
713.936.5400

Raleigh (headquarters)
223 S. West Street
Suite 1200
Raleigh, NC 27603
919.787.8400

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