

# M&A Report

## U.S. Construction Market

### *August 2024*

Valuable Client of  
Emory Hendrix, AAMS<sup>®</sup>, CEPA<sup>®</sup>



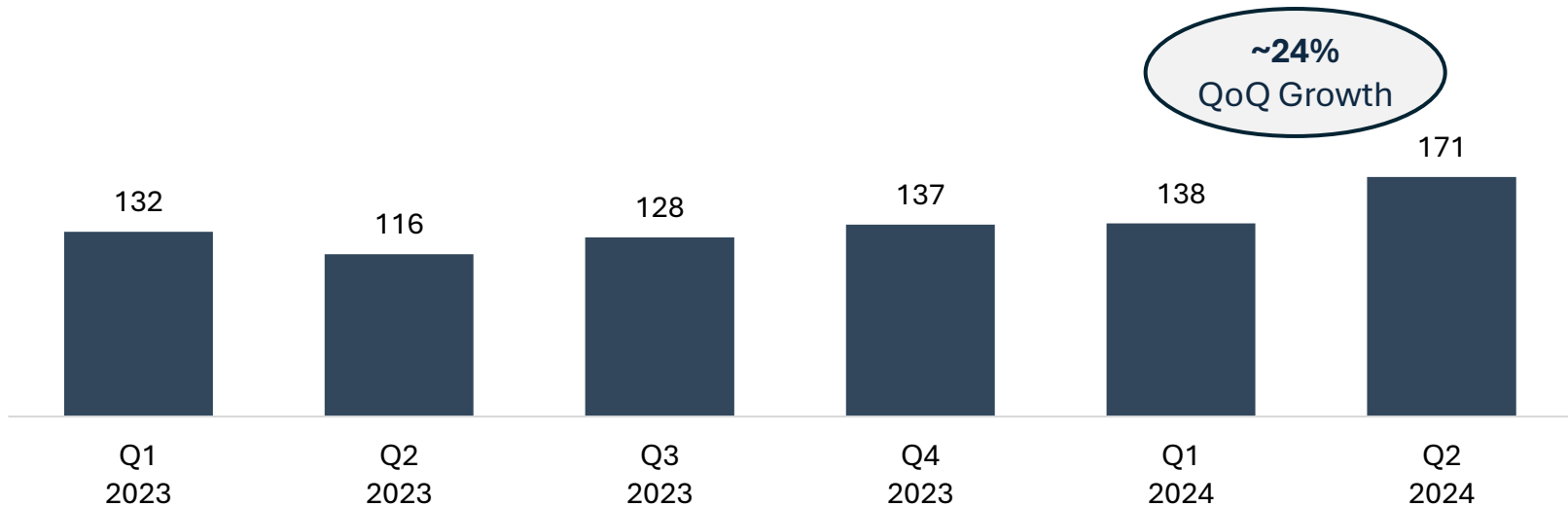
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# U.S. Construction M&A Activity Steadily Increasing

- Despite economic headwinds such as rising interest rates and recession risks, buyer appetite for construction acquisitions has remained resilient throughout the first half of 2024, supported by healthy backlog levels and government funding initiatives.
- U.S. construction acquisitions in Q2 2024 saw a ~24% quarter-over-quarter (QoQ) increase, signaling a positive trend in M&A activity for the coming periods.
- The size of deals in 2024 has varied significantly, with transaction values ranging from \$10 million to \$1.1 billion, indicating a broad spectrum of market activity.

U.S. Construction Acquisitions by Quarter<sup>(1)</sup>



(1): CapIQ; includes construction targets that are HQ'd in the U.S.

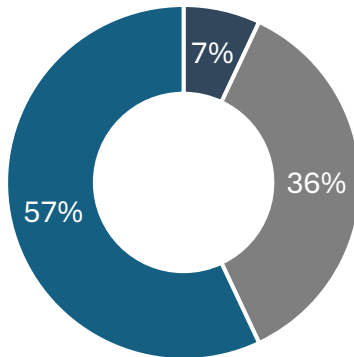


# Private Equity Appetite Continues to Grow

- U.S. private equity construction transactions surged by 27% year-over-year in the first half of 2024, with 136 deals compared to 107 in the same period of 2023.
- This robust growth highlights increased market interest and investment as private equity funds intensify their buy-and-build strategies within the construction sector.
- The fragmented market, combined with stable sector performance, visibility from healthy backlogs, and government funding through initiatives like the Bipartisan Infrastructure Bill, suggests continued strong private equity interest, particularly in companies with reliable cash flows.

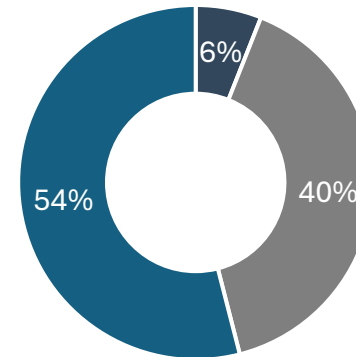
## U.S. Construction Acquisitions by Buyer Type<sup>(1)</sup>

U.S. Construction M&A Deals 1H 2023



■ PE Platforms ■ PE Add-ons ■ Strategics

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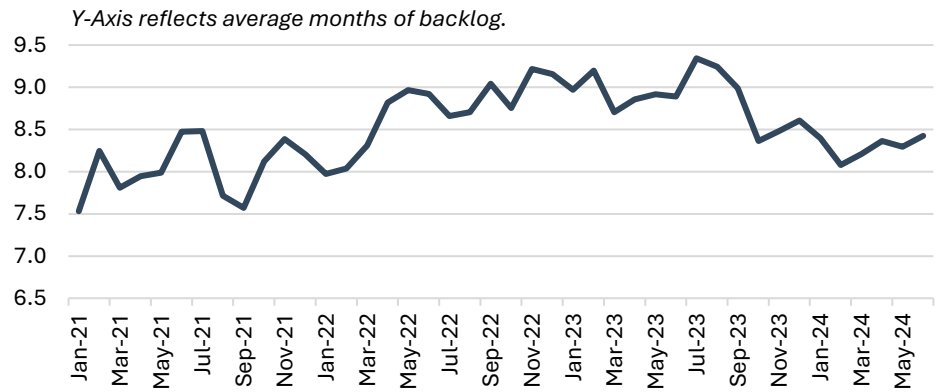
(1): CapIQ.



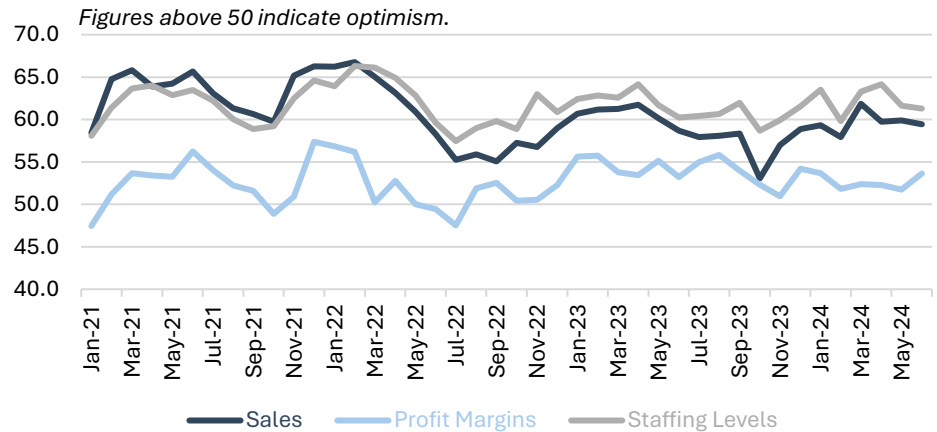
# Sub-Sector Spotlight: Commercial Construction

- Interest Rates and Supply Issues:** Commercial contractors have been grappling with the impact of these challenges that occurred since 2021.
- Other Challenges:** Stagnant offices and warehouse construction, along with high operating costs, posed as other hurdles.
- Sector Resilience:** Despite the above, recent increased activity in warehouse, retail and food sector construction offers relief in the sector. The Commercial Construction Backlog Indicator suggest that activity levels are maintaining stability despite broader economic challenges.
- Potential Gains:** Contractors could benefit from rising disposable income and corporate profits. Lower interest rates and government incentives could also serve as a catalyst.
- Positive Outlook:** The Construction Confidence Index reflects optimism within the sector, signaling continued confidence in future project opportunities.

**Commercial Construction Backlog Indicator**



**Construction Confidence Index**



Source: IBIS World (July 2024 Commercial Building Construction in the US), Associated Builders and Contractors.



# Key Trends of 1H 2024 Construction Acquisitions

## Publicly-Traded Companies Seeking Acquisitions

- Acquisition strengthens NV5's existing structural engineering group and compliments offerings for facility renovations and new construction.
- Demonstrates NV5's ability to redeploy capital as they have been acquisitive recently with several deals in their pipeline.

March 2024



*Construction for commercial and residential markets*

## Private Companies Growing via Acquisitions

- Acquisition expands Atwell's presence in Florida, adding over 50 employees and will be the Company's first office in Miami.
- Demonstrates Atwell's strategy to grow inorganically via geographic expansion acquisitions (their 6<sup>th</sup> acquisition since 2023).

June 2024



*Civil engineering and surveying professional services*

## Private Equity Funds Executing Buy & Build Method

- Acquisition significantly strengthens presence along the west coast and strengthens commercial service offering.
- Demonstrates KKR's (PE-owner) strategy to utilize M&A to expand service offering and enter new markets.

June 2024











*Structural foundation contractor and repair for commercial markets*







## Precedent Transactions Analysis

- The average LTM EBITDA multiple for the below transaction comp set implied a valuation of **~7.3x**.
- Private equity buyers tend to be more conservative than strategic buyers in the general contractor sector as strategic buyers realize more synergies in M&A.

Date Closed	Buyer	Target	Target Description	Deal Size (\$MM)	EBITDA Multiple
Jul-2024	 QUANTA SERVICES	 CLUPTINO ELECTRIC INC	– Provides engineering, construction and project management solutions for a variety of industries.	\$1,705	10.9x
2023	3 Private Equity Funds	3 Targets	– Includes 3 private equity acquisitions in which the targets were operating as nonresidential building construction companies	\$20	4.8x
Jun-2022	 PSC Primoris	 PLH GROUP	– Provides construction services for power generation and utility end markets.	\$481	8.1x
Dec-2021	 MasTec	 HENKELS & MCCOY® Group	– Provides construction services for energy and telecommunications end markets.	\$599	8.6x
Dec-2020	 PSC Primoris	 FUTURE INFRASTRUCTURE	– Provides construction and project management services for telecom and infrastructure applications.	\$605	9.0x
<b>General Contractor Targets</b>				<b>Average: \$493MM</b>	<b>7.3x</b>



## Public Companies Recent Performance & Observations




Company	QoQ Revenue Growth	Gross Margin	EBITDA Margin	Market Observations	M&A / Strategy Commentary
(1) 	-4.2%	13.2%	6.6%	<ul style="list-style-type: none"> <li>Industrial construction segment had a QoQ revenue growth of 44%.</li> <li>Seeing an increase in projects coming to market related to the growing urgency of having the infrastructure to meet the forecasted growth.</li> <li>Plans for a tremendous number of renewable projects.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy includes disciplined risk management with the goal of improving project management effectiveness and minimizing costly project overruns.</li> <li>Drive organic growth while also being alert for acquisition opportunities that make sense through thoughtful capital allocation.</li> </ul>
	+26.9%	8.8%	3.7%	<ul style="list-style-type: none"> <li>Robust project backlog including significant infrastructure projects across multiple sectors.</li> <li>Seeing elevated spending across key industrial buildings and infrastructure markets. Expecting these conditions to excel business forward.</li> </ul>	<ul style="list-style-type: none"> <li>Targeting M&amp;A sectors with specialized capabilities with higher margin potential.</li> <li>Focused on strategic hiring. Adding very specialized skill sets in sectors to continue growth trajectory.</li> <li>Seeking to integrate firms with specialized offerings that complement existing services and expand geographical footprint.</li> </ul>
	+61%	12.6%	5.9%	<ul style="list-style-type: none"> <li>Investments on materials segment is paying off. Further gains are expected in the future.</li> <li>Materials price increase: 10% of aggregates and 5% on asphalt.</li> </ul>	<ul style="list-style-type: none"> <li>Recent acquisitions focused on materials and vertical-integrated operations.</li> <li>Growing materials segment through vertical integration is central to strategy.</li> </ul>
	+8.8%	23.6%	11.5%	<ul style="list-style-type: none"> <li>Healthy increase in backlog from Q1 to Q2.</li> <li>Commercial and Industrial revenue increase 42.5% QoQ.</li> </ul>	<ul style="list-style-type: none"> <li>Seeking acquisition opportunities that fit into existing segment platforms.</li> <li>Focused on specific geographic additions.</li> </ul>

Note: Excludes Large Cap publicly-traded companies.

(1): Q2 financials are not publicly available. QoQ growth is calculated using with Q1 and Q4 2023 data.



## Public Companies Recent Performance & Observations (II)

Company	QoQ Revenue Growth	Gross Margin	EBITDA Margin	Market Observations	M&A / Strategy Commentary
	+1.6%	8.8%	3.6%	<ul style="list-style-type: none"> <li>– Increase in costs associated with labor.</li> <li>– Rising costs associated with supply chain disruptions and unfavorable job closeouts.</li> <li>– Bidding activity shows positive signs of growth with increased opportunities for various size projects.</li> <li>– Forecasting growth in engineering and construction spending remains strong in nonresidential segments.</li> </ul>	<ul style="list-style-type: none"> <li>– Pursuing organic growth, acquisitions, and opportunistically repurchase shares.</li> <li>– Looking to be patient with acquisitions opportunities, but closely monitoring strategic opportunities in the solar market.</li> </ul>
	+10.8%	50.9%	12.9%	<ul style="list-style-type: none"> <li>– Observing adoption of digital transformation strategy in transportation and power in the market.</li> <li>– Large supply chain issues; using simulations for the ability to resolve challenges and design new approaches.</li> </ul>	<ul style="list-style-type: none"> <li>– Number of ongoing acquisitions with a few in the pipeline for data center businesses.</li> <li>– Revenue goal over 10 yr. period consists of acquisitions that strengthen verticals in each segment.</li> </ul>
	+7.5%	7.8%	2.5%	<ul style="list-style-type: none"> <li>– Seeing increased costs associated with external subcontractors.</li> <li>– Anticipate backlog to grow substantially later this year and in 2025.</li> </ul>	<ul style="list-style-type: none"> <li>– Strategy to continue to grow backlog over the next 6 months driven by winning large mega projects with limited competition.</li> <li>– Positioning to take advantage of mega projects in the U.S. particularly in infrastructure.</li> </ul>

Note: Excludes Large Cap publicly-traded companies.



# Public Companies Valuation Trends

- Average LTM EBITDA multiples for publicly traded general contractor companies rose significantly in the first half of 2024, climbing from ~8.6x to ~9.9x compared to the same period in 2023.
- There has been recently volatility in the construction sector of the public markets, mostly driven by the Federal Reserve’s commentary on interest rates. A decline in interest rates in September will likely drive current valuations (~11.3x today) up to the elevated levels experienced in the 1H of 2024.



Note: Average of EBITDA multiples from January 1, 2023 to August 22, 2024. Public companies include Argan, Bird Construction, Granite, IES Holdings, MYR Group, NV5 and Tutor Perini.





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