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Industrial Services M&A: Resilience and Opportunities



Third Quarter 2024 Industry Analysis

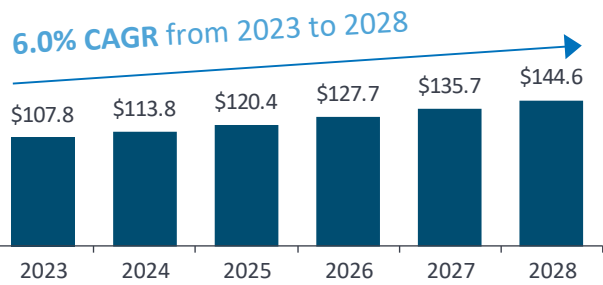
As we enter the final quarter of 2024, the Industrial Services M&A landscape continues to evolve, shaped by economic drivers and shifting market dynamics. The market shows a dynamic shift in economic drivers and transaction activity, with noteworthy trends and strategic deals shaping the landscape.



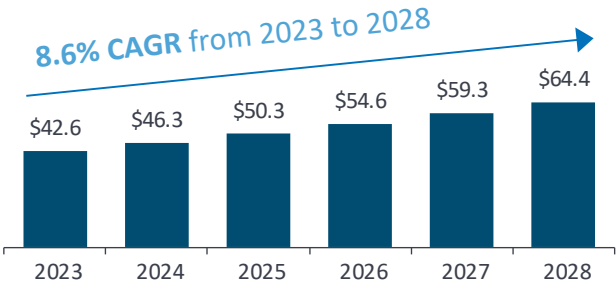
Brooks Crankshaw
Managing Director

ECONOMIC DRIVERS FOR BUSINESS SERVICES

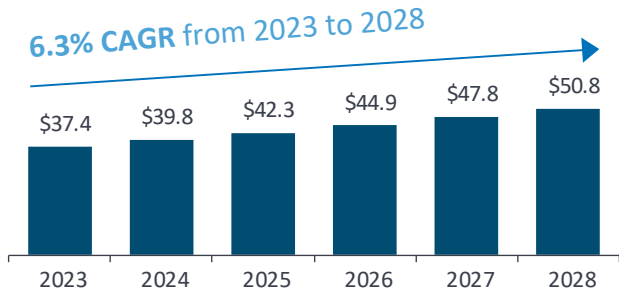
Facilities Services Industry



Industrial Services Industry



Environmental Services Industry



Sources: Statista,
Custom Market Insights

The industrial services sector has demonstrated resilience in 2024, with varied performance across subsectors. Commercial and industrial HVAC companies have seen steady growth, driven by increased focus on indoor air quality and energy efficiency. Industrial roofing services have benefited from infrastructure spending and the need for sustainable building solutions. Environmental remediation firms have experienced heightened demand due to stricter regulations and growing emphasis on ESG initiative. Meanwhile, industrial roofing services benefited from increased commercial construction projects, though the sector faced material cost pressures.

However, janitorial services have faced challenges from labor shortages and rising wage pressures, impacting profit margins. Despite these headwinds, the overall sector has shown adaptability, with many companies leveraging technology to improve efficiency and service delivery.

Broadly speaking, under tighter immigration policies, labor availability has been constrained, impacting the supply of visa-holding workers typically employed in industrial services. This has led to upward pressure on labor costs. Simultaneously, the potential reduction in layers of regulation, such as OSHA and safety standards, could yield long-term cost benefits by lowering compliance and operating costs.

M&A ACTIVITY OVERVIEW

In the first three quarters of 2024, the Industrial Services sector experienced a notable uptick in M&A activity. According to PitchBook's Q3 2024 Global M&A Report, global M&A deal value increased by 27.6%, and deal count grew by 13.3% compared to the same period in 2023. This resurgence was driven by both private equity and strategic buyers seeking to expand market share and capabilities.

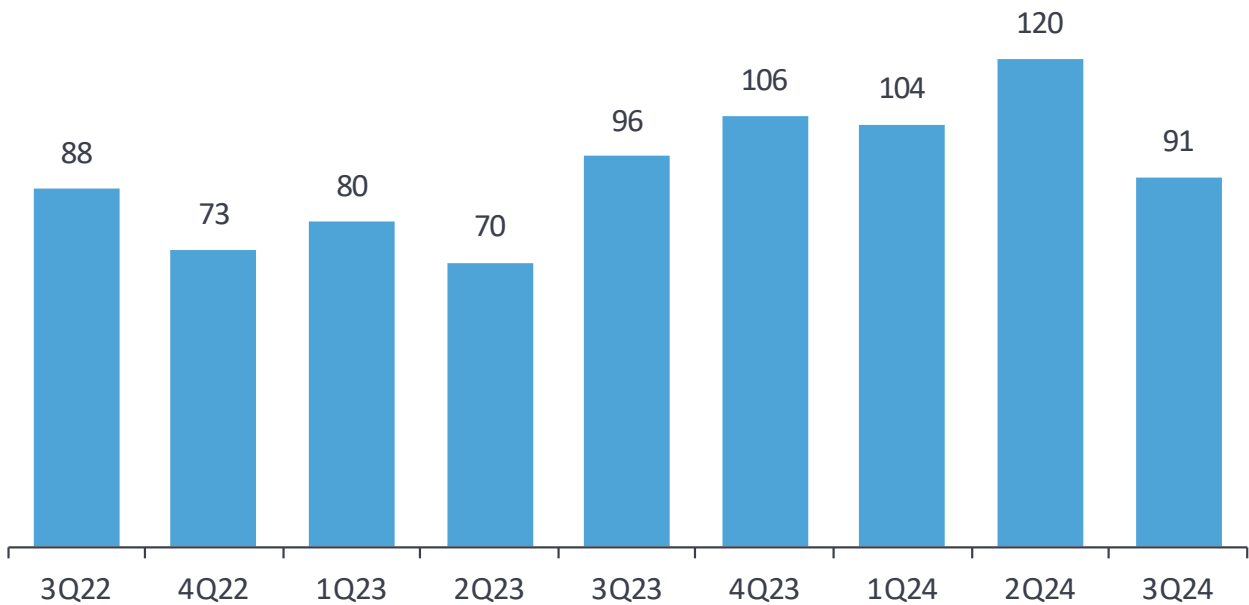
According to our investor survey, transaction values remained stable, especially for high-quality assets with strong revenue growth and market positions. However, mid-tier assets faced more conservative valuations, reflecting a cautious approach from investors. Despite the overall positive trend, a persistent bid/ask gap influenced deal timelines, as sellers and buyers worked to align on valuations.

The competitive M&A environment is further fueled by private equity's strong interest in acquiring route-based service platforms and bolt-on opportunities in HVAC, facility management, disaster recovery, and similar sectors, leading to elevated valuations and a scarcity of attractive assets.

These findings exemplify a market gradually adapting to economic shifts while navigating valuation challenges.



Industrial Services Transactions 3Q22 - 3Q24



Source: Capital IQ



SIGNIFICANT TRANSACTIONS

In the first three quarters of 2024, the Industrial Services sector witnessed several notable mergers and acquisitions, reflecting strategic expansions and market consolidations. Here are three significant transactions within the \$10 million to \$300 million revenue range:

1. **Victor's Air Conditioning Co.** – Acquired for undisclosed amount by Total Comfort Group in Q3 2024
 - a. **Overview:** Total Comfort Group (TCG), a national provider of commercial HVAC/R, plumbing, and electrical services, acquired Victor's Air Conditioning Company to broaden its service offerings and geographic reach.
 - b. **Target Profile:** Victor's Air Conditioning Co. provides residential and commercial HVAC services and has been in operation since the 1960s.
 - c. **Rationale:** This acquisition underscores the trend of HVAC service providers expanding through strategic acquisitions to enhance their market presence.
2. **Elite Electric Plumbing and Air** – Acquired for an undisclosed amount by Southern Home Services in Q3 2024
 - a. **Overview:** Southern Home Services, a strategic acquirer, operates as a HVAC, plumbing, and electrical home services company for residential communications across the South-Eastern US.
 - b. **Target Profile:** Elite Electric Plumbing and Air engages in HVAC, plumbing, and electrical services, and has been in operations for over two decades.
 - c. **Rationale:** The acquisition of Elite Electric highlights a trend in consolidating HVAC, plumbing, and electrical services to tap into urban growth markets. The deal reflects M&A activity geared toward geographic expansion, a critical growth level in a highly fragmented sector.
3. **MRC Consultants and Transaction Advisers** – Acquired for undisclosed amount by Veolia in Q2 2024
 - a. **Overview:** Veolia, a global energy consulting and management solutions firm, through its Seureca division, acquired MRC Consultants & Transaction Advisers to support Veolia's strategic program aimed at accelerating ecological transformation and enhances Seureca's capabilities in decarbonized energy.
 - b. **Target Profile:** MRC provides consulting services in the fields of power and gas, water and sanitation, climate change, and sustainable development.
 - c. **Rationale:** This acquisition highlights the growing demand for specialized environmental services, particularly in sectors requiring urgent attention.

MARKET OUTLOOK



The outlook for Industrial Services M&A remains positive for the remainder of 2024 and into 2025. Factors contributing to this optimism include:

1. Accumulated dry powder in private equity funds, estimated at over \$1.4 trillion, driving continued deal activity.
2. Increasing focus on digital transformation and AI integration, spurring acquisitions of tech-enabled service providers.
3. Ongoing industry fragmentation, presenting opportunities for consolidation and economies of scale.

Federal investment in domestic manufacturing and initiatives encouraging re-shoring into the U.S. are expected to provide a long-term tailwind. A growing domestic manufacturing base will drive increased demand for adjacent industrial services, further strengthening the sector's growth outlook.

Challenges persist, including potential economic headwinds and valuation gaps between buyers and sellers. Despite these concerns, the sector's essential nature and the strategic imperatives driving M&A suggest a continued robust deal environment. As we move forward, companies with strong digital capabilities, diversified service offerings, and scalable business models are likely to attract premium valuations and significant buyer interest. The Industrial Services sector remains a dynamic and attractive space for M&A activity, with ample opportunities for both strategic and financial investors to create value through strategic acquisitions and operational improvements.

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Environmental Services – Other Notable Transactions

Target	Acquirer	Deal Size (\$mm)	Date	Target Industry	Target Description
Hartwell Environmental	DXP Enterprises	30.0	Sep 2024	Environmental Services	Water / wastewater treatment equipment distributor
Colliers International	EnGlobe	475.0	Jul 2024	Environmental Services	Soil and materials engineering services
Standard Waste Services	Titan Environmental Solutions	14.2	Jun 2024	Environmental Services	Provider of waste management services
Truuli Environmental	White River Energy	24.8	Apr 2024	Environmental Services	Provider of carbon trading, advisory, and asset management services
ADP Green	Fine Asset Management	44.9	Feb 2024	Environmental Services	Food waste collection and processing services

HVAC Services – Other Notable Transactions

Target	Acquirer	Deal Size (\$mm)	Date	Target Industry	Target Description
Sun Plumbing / Smith & Keene Home Services	First Capital-backed Cascade Services	Undisclosed	Sep 2024	HVAC / Plumbing Services	Providers of HVAC and plumbing services
Allied Experts	Morgan Stanley Capital Partners-backed Sila Services	Undisclosed	Aug 2024	HVAC / Plumbing Services	Residential HVAC and plumbing services
Advanced Cooling and Heating	Seacoast Service Partners	Undisclosed	Aug 2024	HVAC Services	Residential HVAC service
Airtron Heating & Air Conditioning	Gamut Capital Management	500.0	Aug 2024	HVAC Services	HVAC installation provider for new home constructions
Feldkamp Enterprises	Marsden Services	Undisclosed	Jul 2024	HVAC / Plumbing Services	HVAC maintenance, plumbing, and retrofit services

Janitorial – Other Notable Transactions

Target	Acquirer	Deal Size (\$mm)	Date	Target Industry	Target Description
Duncan & Sons Building Maintenance	Clean Team Inc.	Undisclosed	Aug 2024	Janitorial Services	Commercial janitorial, maintenance, and cleaning services
Hi-Tec Building Services	4M Building Solutions	Undisclosed	Jul 2024	Janitorial Services	Full-service building maintenance and custodial services
Paramount Building Solutions	GDI Integrated Facility Services	Undisclosed	May 2024	Janitorial Services	Janitorial services for retail customers
Central Midlands Cleaning	Triad Service Solutions	Undisclosed	Feb 2024	Janitorial Services	Residential and commercial cleaning services
American Cleaning Systems	Valcourt Building Services	Undisclosed	Feb 2024	Janitorial Services	Commercial cleaning services