

Industry Report: Commercial Construction

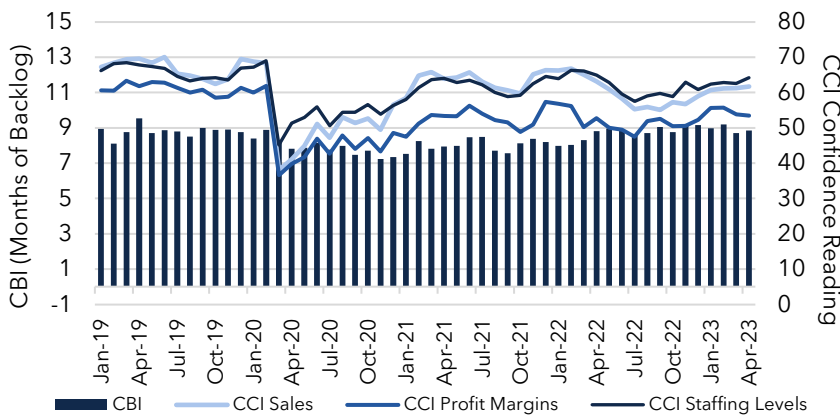


The U.S. commercial construction industry is positioned for significant growth, fueled by federal expenditure on infrastructure projects. With a market value of \$619 billion, the sector is projected to achieve a compound annual growth rate (CAGR) of 3.3% from 2023 to 2028⁽⁴⁾. Building processes are evolving and market demand for sustainable, technologically-advanced solutions is creating opportunities for innovative companies. The combination of a recovering economy, increased infrastructure investments, and the demand for sustainable and advanced products makes the market highly attractive. Investors and industry leaders can leverage these favorable conditions to foster strategic partnerships and unlock value. The industry's focus on green building practices and advancements in construction technology further enhances the potential for transformative M&A transactions. Forward-thinking companies can capitalize on this momentum to strengthen their market presence, drive innovation, and seize growth opportunities.

Key Trends

- » **Significant increase in energy-efficient projects:** according to the U.S. Green Building Council, Leadership in Energy and Environmental Design (LEED) certifications and project registrations have grown at an average rate of 15% over the past 5 years.
- » **Leveraging technological advancements:** drones, VR headsets and AR interfaces creating faster surveying processes and improving project/scope visualization, robots and automation tools increasing productivity, and smart building techniques using 3D printing and prefabrication and/or modular construction to reduce construction time and costs.
- » **Cost increases and bottlenecks:** high inflation, elevated interest rates, and reduced efficiency in permitting continue to impede the rebound of commercial building construction, dampening investment and increasing material costs.

Construction Backlog Indicator & Construction Confidence Index⁽¹⁾⁽²⁾



⁽¹⁾Associated GCAABC Construction Confidence Index
⁽²⁾U.S Chamber of Commerce Commercial Construction Index
⁽³⁾Capital IQ Pro

⁽⁴⁾BIS World
⁽⁵⁾Mordor Intelligence
⁽⁶⁾Deloitte Engineering and Construction Outlook

Key Statistics:

\$550B of federal funding allocated for new infrastructure construction and repairs to existing infrastructure over the next 5 years⁽⁴⁾

3.3% CAGR forecasted from 2023 - 2028 in the U.S. commercial construction market⁽⁵⁾

~35% of buyers in this space are private equity firms or platform companies⁽³⁾

6.21x median EV/EBITDA, for public companies in the commercial construction sector

32.1% year-over-year decline in YTD construction services M&A activity; however, the number of announced or closed YTD transactions, **~80**, is in line with pre-pandemic averages⁽³⁾

3.8% increase in year-over-year construction spending as of March 2023⁽⁷⁾, **2x** growth in construction spending from 2013 to 2022⁽⁸⁾

2.5% year-over-year increase in employment after supply of workers lagged demand during recent years⁽¹⁾

Select Industry Players

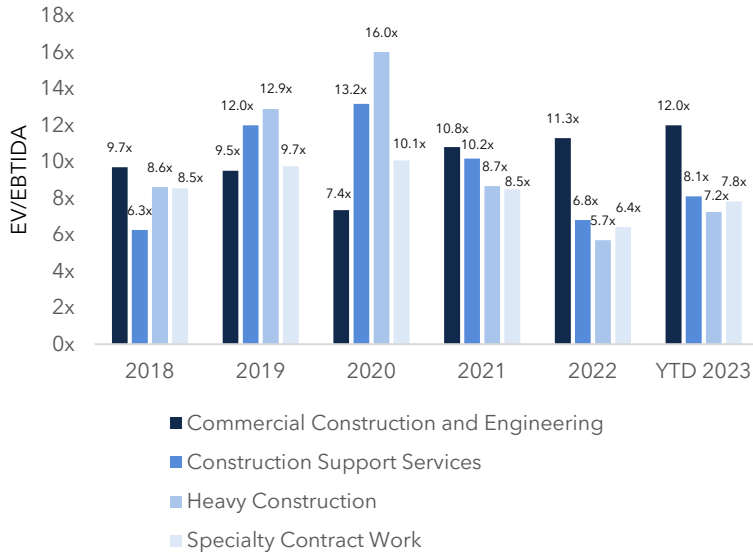


⁽⁷⁾U.S. Census Bureau
⁽⁸⁾Statista
⁽⁹⁾Pitchbook

Increased Investor Interest

Macroeconomic tailwinds are driving investor interest in construction and engineering companies. Factors like infrastructure spending, urbanization, and global economic growth create a favorable environment. The demand for modernization and expansion makes these companies attractive investment opportunities for private equity.

Valuation Trends for Select Public Companies⁽¹⁾



Corporate Value Drivers

- » Maintain positive relationships with trades and subcontractors.
- » Provide attractive benefits and robust training programs to minimize employee turnover.
- » Maintain clean litigation and immigration records, demonstrating compliance and risk management.
- » Implement leading-edge technologies for design and post-design work processes as well as digital technologies to integrate data and analytics.
- » Emphasize quality control and a strong track record of delivering successful projects on time and within budget.

Select Private Equity Groups

INDUSTRIAL OPPORTUNITY PARTNERS

PolyVision | Viaflex | CREATIVE FOAM CORPORATION

CRESCENDO CAPITAL PARTNERS

MONTBLEAU ARCHITECTURAL WOODWORK | AGS CONSTRUCTION, INC. | LOR-MAR MECHANICAL SERVICES INC.

PERMANENT EQUITY

BLUE SQUARE | TEPCO TEPCOGLASS, LLC

⁽¹⁾Capital IQ Pro

Select Recent Transactions⁽¹⁾

Date	Target	Acquirer
May-23	Allstar Construction Holdings	Morgan Stanley
Apr-23	American Asphalt & Grading Co.	Boyne Capital Mgmt.
Oct-22	STR Mechanical	SkyKnight Capital
Aug-22	Sunbelt Modular	MSouth Equity Partners
Jun-22	PLH Group	Primoris
May-22	Hinkle Contracting Co.	CRH Americas Materials

Select Transaction Spotlight

<p>Sell-Side Advisor</p> <p>CAPITOL SUPPLY & SERVICE</p> <p>was acquired by</p> <p>STYLECREST</p>	<p>Sell-Side Advisor</p> <p>A large commercial paving and infrastructure company has partnered with</p> <p>HRS MANAGEMENT</p>	<p>Financial Advisor</p> <p>Pinnacle MEP Holdings a portfolio company of</p> <p>AQUILA EQUITY PARTNERS has partnered with</p> <p>Parker-Arntz CONSTRUCTION SERVICES</p>
<p>Sell-Side Advisor</p> <p>PIPETEK INDUSTRIAL SERVICES</p> <p>has been acquired by</p> <p>DUKE'S ROOTED IN INNOVATION</p> <p>a portfolio company of</p> <p>COMVEST PARTNERS</p>	<p>Financing</p> <p>PDS PACIFIC POWER & SYSTEMS</p> <p>has completed a minority recapitalization and acquisition financing with</p> <p>WHITEWOLF CAPITAL LLC</p>	

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