

**BUSINES SERVICES REPORT 1Q
2024**

FOCUS
Investment Banking

**Unveiling Trends &
Opportunities**

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NAVIGATING OPPORTUNITIES IN BUSINESS SERVICES

As we reflect on the first quarter of 2024, we are pleased to present our comprehensive M&A update for the business services sector within the lower middle market. In a period marked by economic resilience and strategic maneuvering, we witnessed notable trends and transactions that underscore the sector's dynamism and adaptability.

Market Overview:

Despite lingering global uncertainties, the business services sector demonstrated remarkable resilience in the face of ongoing challenges. The lower middle market, in particular, remained a vibrant hub of activity, characterized by robust deal flow and strategic initiatives aimed at driving growth and market consolidation.

Trends:

- 1. Tech Integration:** Technology continued to exert a profound influence on the business services landscape, with companies prioritizing digital transformation initiatives to enhance operational efficiency and customer experience. As a result, we observed a surge in M&A activity centered around tech-enabled service providers, particularly in sectors such as IT consulting, cybersecurity, and SaaS solutions.
- 2. Vertical Integration:** Amidst increasing competition and evolving client demands, businesses sought to bolster their service offerings through strategic acquisitions and partnerships. Vertical integration emerged as a dominant trend, with companies expanding into adjacent sectors to create comprehensive solutions and capture greater market share.
- 3. Focus on ESG:** Environmental, Social, and Governance (ESG) considerations continued to gain prominence within the business services sector, reflecting a growing emphasis on sustainability, diversity, and corporate responsibility. M&A activity increasingly aligned with ESG principles, with investors and acquirers prioritizing targets with strong ESG credentials and ethical business practices.

Looking ahead, we anticipate continued momentum in the business services M&A landscape, driven by evolving market dynamics, technological innovation, and strategic imperatives. As businesses navigate an increasingly complex operating environment, the pursuit of strategic partnerships and transformative acquisitions will remain key drivers of growth and competitive advantage.

The first quarter of 2024 showcased the resilience and adaptability of the business services sector within the lower middle market. We remain committed to providing our clients with unparalleled advisory services and insights to navigate the evolving M&A landscape and capitalize on emerging opportunities.

NOTABLE TRANSACTIONS

Marshall & Stevens has completed the acquisition of a Salt Lake City-based financial advisory firm, **Rocky Mountain Advisory**, broadening its geographic reach and strengthening its expertise. This strategic move bolsters Marshall & Stevens' position in providing comprehensive financial and valuation services to clients across various industries. Read more [here](#).

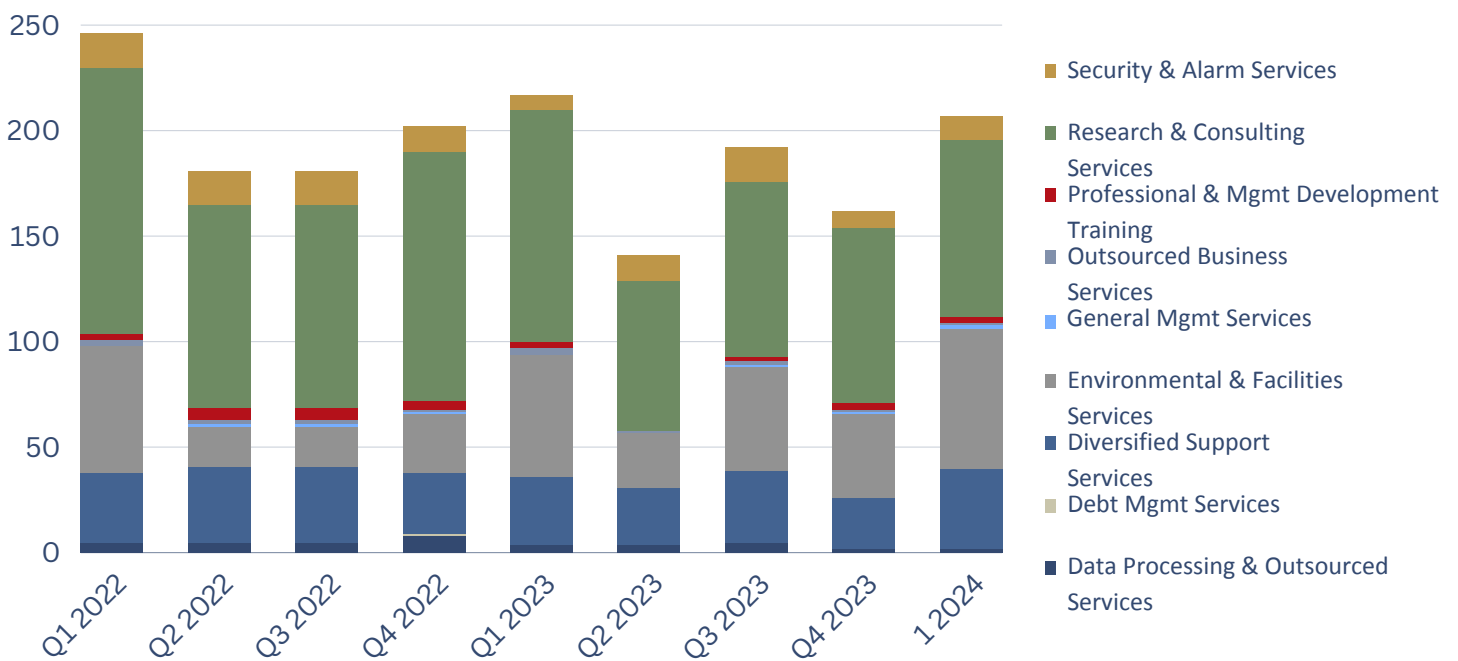
Waste Pro USA Inc., based in Longwood, Florida, has expanded its service offerings in Louisiana by acquiring **Workbox LLC**, a Port Allen-based company specializing in construction, industrial, and residential materials hauling, storage, and sanitation services. Workbox's founder and CEO, Martin Padial, along with his team, will continue with the company, ensuring continuity of service for customers, including unchanged payment options. Read more [here](#).

Dexterra Group acquired **CMI Management**. This strategic acquisition enhances Dexterra's capabilities in facility management and strengthens its market position in delivering comprehensive solutions to clients. Read more [here](#).



MARKET ACTIVITY

- Within the past few years, the M&A market has shown itself to be a masterclass in volatility. The industry saw an unprecedented post Covid rebound at the end of 2020 continuing through 2021 which was eventually followed by a declining year in 2023. The market has high hopes for 2024 and so far, M&A activity in the business services sector has seen a rise in activity in Q1; although, not as much activity as in the first quarter in the two previous years. Overall activity in the Business Services sector increased by 39% over the previous quarter.
- Despite the increase in deal volume in Q1 2024, the total capital investment in Business Services M&A transactions was down by 66% from \$7.3B in Q4 2023 to \$2.5B in Q1 2024. The decrease in value is largely attributed to Bain Capital’s buyout of Guidehouse, a VA based consulting service provider formerly known as PriceWaterhouseCoopers in December 2023.
- Despite difficult headwinds still facing macroeconomic conditions such as elevated inflation, regulatory challenges, higher interest rates and overseas instability, there is still \$3.7 trillion in dry powder that PEGs are trying to deploy and are looking for strategic deals. Subsectors that have seen the biggest increase in activity continue to be Research & Consulting Services, Environmental & Facilities Services and Data Processing & Outsourced services. Still popular business in these subsectors continue to be consulting/engineering firms, landscaping companies, wastewater and septic companies and human capital management firms.
- Valuations increased in the first quarter despite the challenges of higher interest rates. The first quarter saw a rise in multiples for business services transactions of 21% with the average TEV/EVITDA for Q4 2023 at 8.73x increasing to 11.11x in Q1 2024.



AT A GLANCE

Key Statistics

Revenue: \$6.7B
Employees: 35,974
Businesses: 7,180
Wages: \$2.0B

Products & Services

Septic tank cleaning & maintenance services: 61.2%

Drain & sewer services: 36.8%

Other services: 2%

Market Segmentation

Private businesses: 41.5%

Private residences: 40.3%

Public works: 15.5%

Private land: 2.7%

Five-year growth rates display historic and forecast CAGRs

CASE STUDY

INDUSTRY OVERVIEW

Following the pandemic, revenue surged significantly. Increased public investment in wastewater infrastructure, coupled with a surge in demand following lockdowns, led to a substantial spike in revenue for septic, drain, and sewer cleaning services in 2021.

However, **heightened competition has put pressure on profits.** While demand for these essential services has steadily grown, it has also attracted new entrants into the market, intensifying price competition. This dynamic has compelled established companies to lower prices, resulting in profit margins being squeezed.



LOOKING FORWARD

The industry is forecasted to sustain growth over the next five years, albeit at a moderated pace. While it may not experience another surge akin to the post-COVID-19 period, the Infrastructure Investment and Jobs Act will amplify the industry's involvement in the maintenance of sewers and publicly-owned wastewater systems.

As environmental regulations tighten, diminishing the appeal of septic systems in new constructions, specialized sewer servicing companies within the industry are poised to thrive. Despite a recent uptick in interest rates potentially dissuading some firms from investing in cutting-edge technology, larger companies equipped with efficiency-enhancing machinery are likely to benefit.

SECTOR SPOTLIGHT: SEPTIC & SEWER

The septic drain and sewer cleaning services industry experienced a significant revenue boom in the aftermath of the pandemic. Public funding for wastewater systems, coupled with the release of pent-up demand, led to a spike in revenue in 2021. Despite increased competition denting profits, the steady growth in demand for this essential service has paved the way for new players to enter the market. Despite a slowdown in construction in 2020, the industry's designation as an essential service has kept cleaning services on an upward trajectory. Projections indicate a 4.4% revenue increase over the next five years. The shift towards remote work has also heightened wastewater usage for homeowners with septic tanks, prompting consumers to become more comfortable with scheduling services for their systems. Additionally, the Jobs Act will expand the industry's role in cleaning sewers and publicly-owned wastewater systems.

In terms of product and service segmentation, septic tank cleaning and maintenance constitute the majority of the market share at 61.2%, followed by drain and sewer services at 36.8%. Carylon Corporation stands out as a major player in the industry.

Market segments include private businesses, private residences, public works departments, and private land and utility owners. Septic tank usage is concentrated heavily in the Southeast, including Florida, Georgia, and the Carolinas, as well as in California, Texas, New York, Pennsylvania, Ohio, Wisconsin, and Washington.

The industry is supported by associations such as the National Association of Wastewater Technicians (NAWT). Macroeconomic factors expected to impact growth include increases in the housing market, investments by local and state governments in sewer treatment, and growth in commercial and industrial construction.



Carylon
CORPORATION



THE
CYNOSURE
GROUP



NATIONAL WATER
INFRASTRUCTURE
SERVICES



CULTEC



BOW RIVER
CAPITAL



McNally
CAPITAL

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RECENT TRANSACTIONS

This announcement appears as a matter of record only.

aeCyberSolutions™
a division of
ae Solutions

has been acquired by

Deloitte.

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to aeSolutions.

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This announcement appears as a matter of record only.

MICROCONSULT, INC.
www.microconsultinc.com

has been acquired by

Certified Group
Laboratory Testing | Regulatory Consulting

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Microconsult, Inc.

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This announcement appears as a matter of record only.

SAGE
MANAGEMENT

has been acquired by

rib | FIXED COST REDUCTION

a portfolio company of

O2 O2 Investment Partners

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Sage Management.

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This announcement appears as a matter of record only.

LABRADOR

has acquired

Argyle

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to The LABRADOR Group.

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This announcement appears as a matter of record only.

cantey
TECH CONSULTING

and its subsidiary
cantey

received an investment from

LNC
PARTNERS

The undersigned assisted in the negotiations and acted as exclusive financial advisor to Cantey Tech Consulting.

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This announcement appears as a matter of record only.

io io integration

has been acquired by

blueprintX

The undersigned assisted in negotiating the transaction and acted as financial advisor to IO Integration.

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This announcement appears as a matter of record only.

Avar
Consulting, Inc.

has been acquired by

AMDEX

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Avar Consulting, Inc.

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This announcement appears as a matter of record only.

Stonebridge
CONSULTING

has been acquired by

SIERRADIGITAL

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Stonebridge Consulting.

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This announcement appears as a matter of record only.

QUEEN
CONSULTING GROUP

has been acquired by

TALENT GROUP

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Queen Consulting Group.

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This announcement appears as a matter of record only.

BUSINESS INTEGRA
TECHNOLOGY GROUP, LLC

has acquired

Aquila
TECHNOLOGY

a wholly owned subsidiary of
Zensar

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Business Integra.

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This announcement appears as a matter of record only.

NETWORK SUPPORT CO
IT PEACE OF MIND

has been acquired by

Logically

a portfolio company of
Riverside

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to The Network Support Company, LLC.

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This announcement appears as a matter of record only.

GENERAL INFORMATICS

has been recapitalized by

ROSEWOOD
PRIVATE INVESTMENTS

The undersigned initiated the transaction, assisted in the negotiations and acted as financial advisor to General Informatics.

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Top 5 Investment Bank 2022



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OUR TEAM



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Managing Director



John Bradshaw
Senior Advisor



Anna Brumby White
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