

Key Takeaways:

Essential Services (“ES”) Companies Provide Economic High Ground

Transaction Activity has been Relatively Resilient in the ES Vertical

- M&A deal volume in the ES vertical was down approximately 12 percent during the September YTD 2022 period. The broader M&A market (all industries included) has been significantly less active. The closing have been skewing more towards private equity (“PE”) buyers in recent periods as PE investors look for less volatility and more predictability from their targets.
- Valuations have likewise moderated in 2022. The current average EBITDA multiple in the ES vertical is 6.8x (see Chart II, p2).
- Publicly traded ES companies continue to outperform the broader market. Our Objective ES Index has tripled the Russell 2000 over the last five years (see Chart III, p3 and Table I, p4), showing that ES companies can be an attractive area to invest.
- The US economy grew an annualized 2.6 percent in Q3 2022, but a recession is soon expected. The Conference Board forecasts a return to modest growth during the second half of 2023.

Essential Services (“ES”) companies provide a variety of services to B2B and B2C customers. At Objective, we focus on the B2B segment and specifically on companies involved in a long list of activities including:

- *Engineering services*
- *Environmental monitoring and cleanup*
- *Food service*
- *A variety of maintenance and repair – production equipment, fleets, facilities, grounds, roadways and infrastructure*
- *Staffing services*
- *Waste management*
- *Water treatment – chemicals and other industrial supplies*
- *Work uniform rental*

Objective Investment Banking & Valuation is a leading investment banking and valuation firm, advising lower middle-market companies through the following services:

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Volume

M&A activity in the Essential Services (“ES”) vertical, while down from an historic high in 2021, appears to be on stable footing and should end the year at a level on par with 2019 pre-pandemic volume. Broader M&A market activity in North America (all industries included) has not been as resilient.

Reported deal count in the ES vertical for Sep YTD 2022 was down approximately 12 percent from the comparable year-earlier period (see Chart I). Investors, strategic and private equity (“PE”) alike, tend to be attracted to ES companies in economic down cycles as they are thought to be somewhat recession resistant given the “essential” nature of the services provided.

The data suggests that PE buyers were involved in approximately one-third of the control transactions completed in the September YTD period. This share is up from 2021 when PE firms were involved in approximately one-fourth of deal closings.

Valuations

Valuation multiples for ES companies are down from the highwater mark hit 1.5 years ago. Multiples started descending in Q3 of 2021 and now seem to be stabilizing at current levels (see Chart II). The average EBITDA multiple now sits at approximately 6.8x.

Volatility continues in the public markets and ES companies have not been spared, as can be seen in Chart III. That said, our Objective ES Index, which is a composite of thirteen publicly traded ES companies (see Table I), has consistently performed better than the broader public market over the last five years. Specifically, our ES Index was up 63.22 percent (through November 28, 2022), surpassing the performance of the Russell 2000 which was up 19.17 percent during the same time range. Historical price performance makes ES companies worthy of investor consideration and serves as validation for the M&A activity in the space.

Chart I | M&A Volume

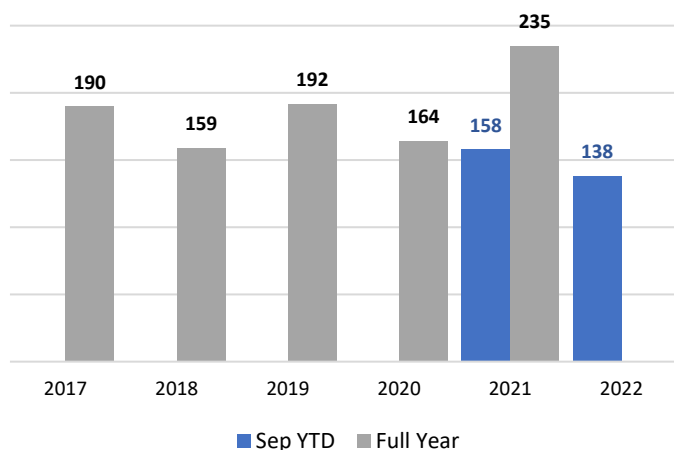


Chart II | EBITDA Multiples – Essential Services

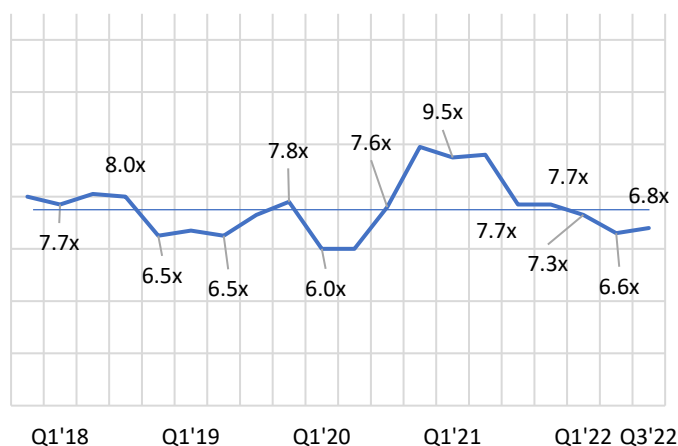
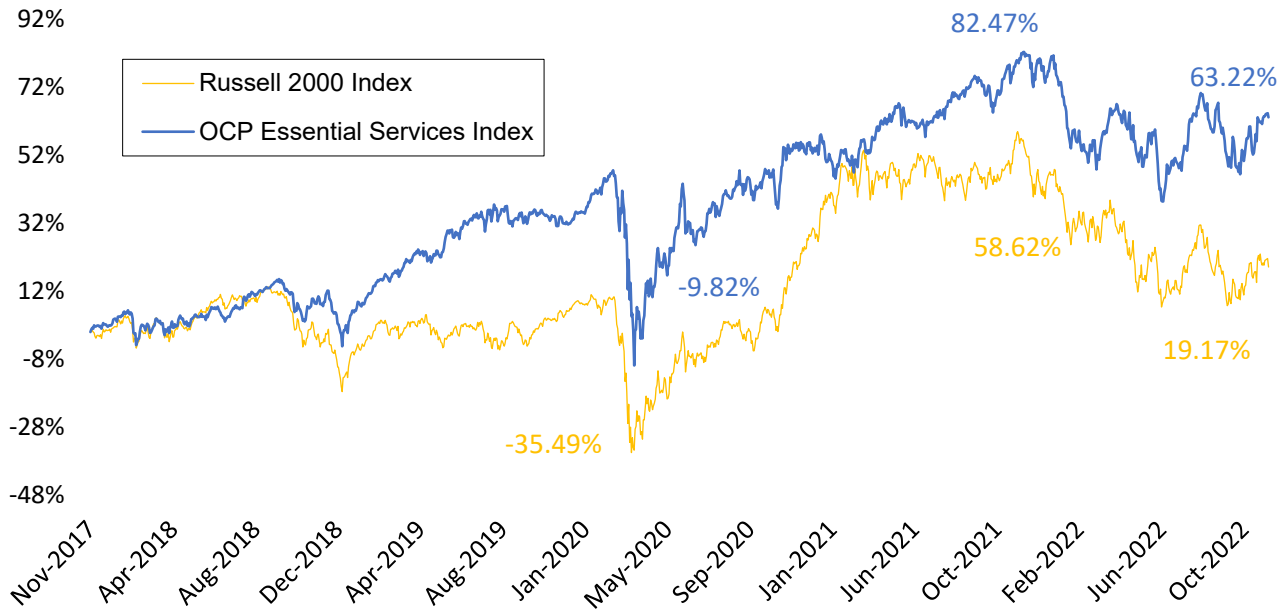


Chart III | Objective Essential Services Index vs Russell 2000



Economic Considerations

The US economy grew an annualized 2.6 percent in Q3 2022, rebounding from a contraction during the first half of the year. Positive contributors came from trade with imports sinking 6.9 percent while exports were up 14.4 percent, led by petroleum products, non-automotive capital goods, and financial services.

The Conference Board forecasts that a recession is soon coming, possibly by the end of 2022. The Board further expects a rebound during the second half of 2023 such that overall growth in the new year will be 0 percent.

Manufacturers continue to report expansion, albeit by a very thin margin. ISM's Purchasing Managers Index ("PMI") registered 50.2 percent in October 2022; a reading above 50 percent indicates expansion. Index panelists indicate that new order rates are softening as companies prepare for potentially lower demand in the near-term.

Concluding remark – The economic landscape is currently not ideal. However, M&A capital remains abundant with dealmakers continuing to search for solid targets like the ones offered in the Essential Service space. We expect deal volumes and valuations to continue at current levels as we work our way through the ongoing economic headwinds.

M&A INDUSTRY UPDATE

Essential Services | Nov 2022

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Investment Banking & Valuation

Table I | Publicly-Traded Essential Services Companies

Company Name	Enterprise Value	LTM Rev	LTM EBITDA	1-Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Rev Multiple	LTM EBITDA Multiple
AAR Corp. (AIR)	\$1,677	\$1,811	\$159	6.13%	18.2%	8.8%	0.9x	8.8x
ABM Industries Incorporated (ABM)	4,263	7,491	441	24.49%	14.6%	5.9%	0.6x	8.4x
APi Group Corporation (APG)	7,023	5,967	483	60.84%	25.6%	8.1%	1.2x	12.7x
Aramark (ARMK)	17,918	16,327	1,123	34.98%	15.2%	6.9%	1.1x	8.6x
Cintas Corporation (CTAS)	49,231	8,124	1,924	11.80%	46.3%	23.7%	6.1x	24.6x
Comfort Systems USA, Inc. (FIX)	4,857	3,879	302	33.01%	17.6%	7.8%	1.3x	14.0x
Ecolab Inc. (ECL)	50,302	13,881	2,734	11.64%	38.5%	19.7%	3.6x	17.3x
Rentokil Initial plc (RTO)	18,292	3,697	716	3.61%	77.7%	19.4%	4.9x	22.3x
Rollins, Inc. (ROL)	19,867	2,635	557	11.63%	51.5%	21.1%	7.5x	30.4x
Stericycle, Inc. (SRCL)	6,702	2,692	406	1.75%	37.3%	15.1%	2.5x	12.6x
The Brink's Company (BCO)	5,470	4,443	591	7.74%	23.3%	13.3%	1.2x	7.0x
UniFirst Corporation (UNF)	3,232	2,001	244	9.56%	34.7%	12.2%	1.6x	12.2x
Waste Management, Inc. (WM)	81,488	19,441	5,342	12.25%	37.5%	27.5%	4.2x	15.0x
	Enterprise Value	LTM Rev	LTM EBITDA	1-Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Rev Multiple	LTM EBITDA Multiple
High	\$81,488	\$19,441	\$5,342	60.84%	77.7%	27.5%	7.5x	30.4x
Low	1,677	1,811	159	1.75%	14.6%	5.9%	0.6x	7.0x
Mean	20,794	7,107	1,156	17.65%	33.7%	14.6%	2.8x	14.9x
Median	7,023	4,443	557	11.64%	34.7%	13.3%	1.6x	12.7x

About Objective

Founded in 2006, Objective is a Middle Market M&A and Valuation Advisory firm focused on transaction and advisory services for middle market companies. Objective combines a tailored process with deep sector-specific expertise and an exceptional team of specialized professionals in an effort to consistently maximize clients' M&A and valuation advisory results. Objective is a nationally recognized M&A Advisor, including Best Company Sale Advisory Project (USA) 2021 for the sale of AEM, Inc. to Industrial Growth Partners.

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Manufacturing & Distribution Industry Group

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Select Transactions

 Has been acquired by Sell-Side Advisor to AEM, Inc.	 Has been acquired by Sell-Side Advisor to Avista Technologies*
 Has been acquired by Sell-Side Advisor to Holdrite*	 Has acquired Buy-Side Advisor to Amada America, Inc.*
Purcell Technologies Has been acquired by Sell-Side Advisor to Purcell Technologies*	 Has been acquired by Sell-Side Advisor to Catalytica Energy Systems*
 Has been acquired by Sell-Side Advisor to MWS Wire Industries*	 Has been acquired by Sell-Side Advisor to Reynolds Industry Incorporated*

- 2021 Boutique Investment Banking Firm of the Year
- 2021 Information Technology Deal of the Year
- 2021 Consumer Discretionary Deal of the Year
- 2021 Best Company Sale Advisory Project (USA)
- 2021 Best Investment Banking & Valuation Firm - California
- 2021 Top 10 Valuation Services Company
- 2021 Leaders of Influence: Investment Bankers
- 2020 Corporate/Strategic Deal of the Year
- 2019 Most Innovative M&A Firm - California
- 2019 Consumer Discretionary Deal of the Year
- 2019 Technology Deal of the Year
- 2019 Corporate/Strategic Deal of the Year

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