HARD FACILITY SERVICES

Fall 2021 Market Update | Searching for Resiliency

Introduction: Houlihan Lokey's Dedication to the Hard Facility Services Sector

Houlihan Lokey has established one of the broadest and deepest sector expertise specific to technical ("hard") facility services.

Hard facility services pertain to the physical structure and systems of the building and cannot be interrupted. Houlihan Lokey subspecialities include:

Asset Management	Automation and Controls	Building Department Services
Elevator Services	Fire and Life Safety	Flooring / Roofing Services
HVAC Services	Installations, Maintenance, and Repair	Mechanical, Electrical, and Plumbing
Planning and Engineering	Quality Assurance	Utility and Energy Management

HOULIHAN LOKEY

HLI
LISTED
NYSE

~$6.0B MARKET CAPITALIZATION

The depth of Houlihan Lokey's coverage of the facility services market is supported by the unparalleled breadth of our global platform:

- No. 1 M&A advisor for All U.S. Transactions*
- Closed 700+ M&A deals in the past five years
- Expertise advising management to optimize post transaction partnerships

2020 M&A Advisory Rankings
All U.S. Industrial Transactions

	Advisor	Deals
1	**Houlihan Lokey**	
2	Generational Equity	
3	Goldman Sachs & C	
4	Jefferies LLC	
5	JP Morgan	
5	Moelis & Co	

Source: Refinitiv (formerly known as Th

2020 M&A Advisory Rankings
All U.S. Business Services Transactions

	Advisor	Deals
1	**Houlihan Lokey**	
2	Generational Equity	
2	Jefferies LLC	
4	JP Morgan	
4	Evercore Partners	

Source: Refinitiv (formerly known as Th

2020 M&A Advisory Rankings
All U.S. Transactions

	Advisor	Deals
1	**Houlihan Lokey**	**210**
2	Goldman Sachs & Co	172
3	JP Morgan	132
4	Evercore Partners	126
5	Morgan Stanley	123

Source: Refinitiv (formerly known as Thomson Reuters)

Casey Schwartz
Co-Head of Facility Services
Head of Hard Services Vertical
Cell: 818.625.4196
Office: 310.789.5737
Email: CRSchwartz@HL.com

The facility services market is experiencing fundamental change. Nowhere is this change more pronounced than within the subsectors that comprise the industry's hard services. Sector investors will find excitement in the truism that change breeds opportunity. But, these same investors must also successfully bifurcate between (a) those opportunities that are benefiting from resilient evolution and (b) those opportunities that are benefiting from current market volatility. The pages to follow provide an update on 10 current trends impacting sector demand. The positive valuation implications are consistent across these trends. However, the cause of each trend—and the resulting implications on the sustainability of each trend—can vastly differ. Houlihan Lokey, in its position as a leading advisor with specific expertise in hard facility services, has a unique vantage point to understand the attractiveness of M&A that is shaping our industry. We look forward to continuing this discussion, including providing any additional commentary or content you would find useful to "unpack" the resiliency of each trend impacting our dynamic sector.

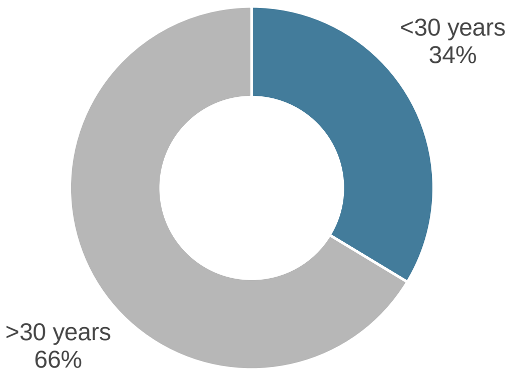
—Casey Schwartz, Head of Hard Facility Services

*Source: Refinitiv.

Key Trends Driving Sector Demand Today

Key Trend #1: Installed Base of Aging Infrastructure in Need of Repair and Expansion

Average building age in U.S.



- The installed base of aging and overutilized structures will increasingly necessitate services to sustain existing requirements and meet forecasted demand.
    - The 2021 ASCE report card for all U.S. infrastructure has received the unfortunate grade of C-, with critical subsegments like schools and airports scoring a D+.
- Facilities, and their systems, are in dire need of replacement, overhaul, or intensive preventative maintenance and frequent break/fix repairs. Legacy building systems also require upgrades and modernizations to meet current building codes, including energy efficiency and health and safety requirements.
    - Approximately 66% of U.S. infrastructure is estimated to be in excess of 30 years old and approaching or exceeding useful life.
- Furthermore, legacy buildings and systems require expansion to meet increasing capacity requirements.
    - For example, commercial buildings will undergo approximately 34% growth between 2019 and 2050, reaching 125 billion square feet to accommodate expected demand.

Paradigms Accelerating Need for U.S. Infrastructure Investment

Population growth and long-term trend toward urbanization/return to office are driving investment to meet capacity and workplace safety requirements.

Climate change, and the rising frequency of resulting weather-related incidents, are stimulating both preventative and reactive infrastructure upgrades nationwide.

Technological innovations, including advances in AI, IoT, and building data, are fundamentally changing how infrastructure is engineered, monitored, and managed.

The recently announced infrastructure bill includes $550 billion in new spending. This will affect a broad base of industrial, commercial, and residential sectors and, as a result, will materially drive the volume of services required to sustain and expand the nation's infrastructure.

- The Senate passed the infrastructure bill in a bipartisan 69-30 vote, providing capital for a broad array of spending across infrastructure improvement and expansion initiatives, including roads, bridges, high-speed internet, public transit, railways, ports, airports, water, and energy efficiency, among other essential spending.
- Notwithstanding any decision by the House of Representatives, this bill is a further reminder of the significant facility spend that will occur as a result of either the signing of an infrastructure bill or the continued acceleration of break/fix requirements if widespread funding continues to be deferred.

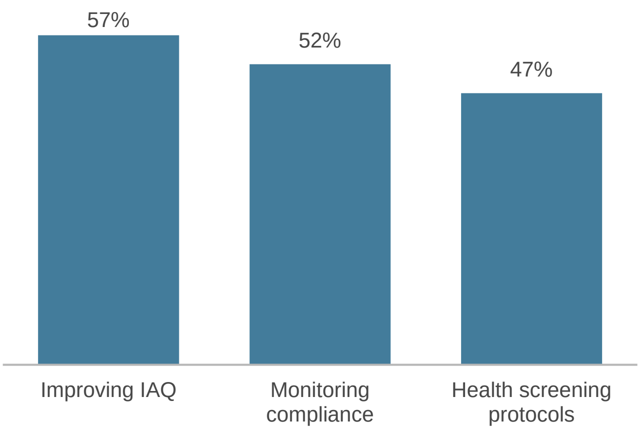
Sources: University of Michigan Center for Sustainable Systems; U.S. Energy Information Administration.

Key Trends Driving Sector Demand Today (cont.)

Key Trend #2: Increasing Focus on Resilient Services

Health and Safety Related Services

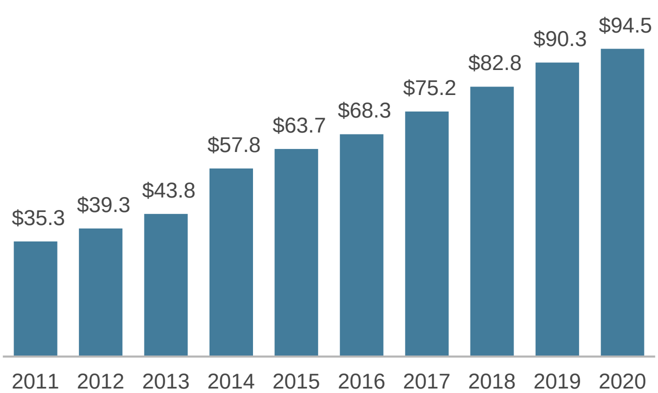
Majority of U.S. survey respondents rank indoor air quality (IAQ) as a critical building element



- Rising awareness about workplace safety will drive emphasis on facility planning and resulting mechanical services (air quality, water quality, etc.).
- 83% of survey respondents say they would hire more people in health and safety roles.
- 93% of U.S. respondents consider a healthy building an important priority.
- Among respondents in the U.S., 57% ranked indoor air quality as one of the most important elements of a healthy building.
- A byproduct of aging buildings is the lack of adherence to modern building codes, enhancing the spending requirements to ensure regulatory compliance.

Energy Efficiency Related Services

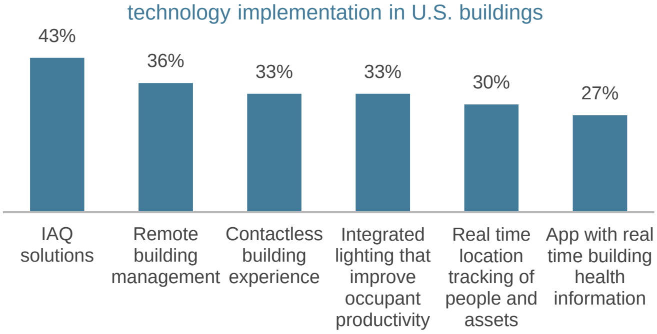
Revenue of the building efficiency market in the U.S. ($B)



- Climate targets and consumption regulations continue to drive adoption of efficient and intelligent building technologies.
  - U.S. spend on building efficiency grew to $95 billion in 2020, representing a 10% CAGR since 2010 (with a 5% growth rate in 2020 notwithstanding COVID-19).
- Services that support energy conservation (e.g., HVAC, automation and controls, envelope improvements) are poised for continued growth over the coming decade.
  - An estimated 62% of commercial buildings can reach net-zero emissions by implementing currently available technologies and self-generation.

COVID-19 Has Placed a “Spotlight” on the Need to Invest in Smart Building Solutions

Respondent sentiment regarding the % penetration of technology implementation in U.S. buildings



- 67% and 62% of facility managers in the U.S. said that they are now more willing to invest in smart and healthy building solutions, respectively, than before COVID-19.
- A material gap remains in technologies currently deployed in buildings.
  - While IAQ is important to occupants and stakeholders, only 43% of facilities in the U.S. have systems in place.

Sources: McKinsey Global Survey of 800 executives; Honeywell 2021 Building Trends Series Survey; Advanced Energy Economy.

Key Trends Driving Sector Demand Today (cont.)

Key Trend #3: Revised Understanding of Recurring Revenue

Traditional Valuation Paradigm

Project Based | **Reoccurring (Actuarial)** | **Reoccurring (Demand)** | **Recurring**

- Recurring revenue, supported by services that are inherently essential and repetitive in nature, drives the valuation success of hard facility services platforms.
- Revenue model fundamentals can vary depending on the service, with frequent and regulatory requirements driving traditional recurring revenue for certain mechanical services (e.g., elevator), while other services (e.g., plumbing) are largely demand driven (i.e., customers needing the service on a frequent basis) or recurring when analyzing trends of an entire customer cohort (i.e., actuarially recurring).
- Notwithstanding revenue model differences, the market is witnessing valuation parity for traditional recurring revenue and recurring revenue that is actuarial in nature.

Key Trend #4: Relative Valuation Parity for Industrial, Residential, and Commercial Sectors

Industrial

- There is aggressive market appetite for end-market exposure to critical industrial sectors.
- Multiple structural drivers act as demand catalysts:
  - E-commerce
  - Speed-to-consumer supply chain strategies
  - Customer adoption of high-throughput facilities

Residential

- The work-from-home environment has resulted in significant demand for residential spending related to repair and remodel.
- In addition, investment in new home development is expected to remain robust, driven by factors including increased earnings, low rates, and disparate work environments.

Commercial

- While building use cases evolve (e.g., rise of e-commerce), square footage is not disappearing, resulting in steady overall demand despite shifting tenants.
- There is strong demand for service providers who play into themes such as return to office, HVAC / indoor air quality, automation, and compliance.

Key Trend #5: Acceleration of Outsourcing Model

- Outsourced providers now comprise the majority of facilities management spend in the U.S., with 57% of companies increasing their use of outsourcing over the past decade.
- The primary drivers of outsourcing have included fixed cost control, an emphasis by companies on their core operations, and the increasing quality / specialization of third-party service providers.
- Specialized, third-party services are also highly sought after (and required in certain cases) as a result of the evolving complexity of building codes and resulting compliance requirements of regulatory agencies to ensure building and occupant safety.

Source: Wall Street research.

Key Trends Driving Sector Demand Today (cont.)

Key Trend #6: Fragmentation

- The hard facility services landscape remains highly fragmented, with local, regional, and national customers predominantly served by a universe of local or regional service providers. For example:
  - More than 1,500 fire and life safety providers with >$1 million of revenue; <25 have revenue greater than $100 million
  - Plumbing and electrical market ($300 billion) is highly fragmented with a local service provider landscape
- A tangible buy-and-build opportunity, coupled with the other nine trends discussed in this document, is driving robust M&A activity. A selection of deal volume, in just 2021 alone, is summarized on the next page.

Key Trend #7: Benefits of Route-Based Business Model

- The common business model in the hard facility services sector is centered around route-based logistics, which benefits from increasing route density (i.e., the business model becomes more lucrative as plumbers, electricians, and other trades are able to make more stops along their route).
- Consolidation strategies, benefiting from the fragmented market landscape, not only drive platform scale but also drive utilization and margins of technicians and equipment.

Key Trend #8: Rise of Investor Appetite for Project-Based Work

- Business models that rely on project work (e.g., facility expansion or new development) are no longer experiencing investor de-prioritization relative to the break/fix market.
- The appetite, and increasing valuations, for project-based business models is supported by substantial pent-up demand for investment in critical sectors like healthcare, education, utility, and transportation and investor perception of long-term spend resulting from a U.S. infrastructure bill.

Key Trend #9: Cross-Selling Opportunities

- Another truism of the fragmented market landscape is the volume of sole source providers (HVAC, plumbing, electrical, etc.).
- Through a buy-and-build strategy, investors have a tangible opportunity to drive substantial cross-selling by adding complementary services that are delivered to a common customer base.
- Sector estimates indicate that businesses have a 60% to 70% probability of selling a new service to an existing customer, versus a 5% to 20% probability to acquire a prospect.

Key Trend #10: Asset Light Business Models

- There is significant investor appetite for asset light business models as a result of the substantial free cash flow generation/limited capital expenditure requirements of these models.
- Core to the success of the asset light strategy is an ability to successfully identify, hire, and retain talent to service demand. The most prized sector assets consistently prioritize culture as a key differentiator, which in turn sustains a powerful service delivery model.

Source: Wall Street research.

Recent M&A Activity in Hard Facility Services

Key hard facility services themes, including outsourcing, fragmentation, recurring revenue, and essential services, are attracting heightened private equity and strategic interest.

Date	Target	Acquiror	Target Description	Rationale
Aug. 2021	Ross Elevator	KONE	Provider of elevator maintenance and repair services	Geographic density play, as acquisition expands KONE's operations in Cleveland and Akron, Ohio
Aug. 2021	Crane 1	L2 Capital Partners	Provider of overhead crane services	Platform to aggressively consolidate the highly fragmented overhead crane MRO market
July 2021	Chubb	APi Group	A fire safety and security solutions provider	Transforms API into leading life safety services provider; strengthens recurring revenue services profile; synergy opportunities
July 2021	Reedy Industries	Partners Group	Provides commercial HVAC services	Opportunity to further develop hub-and-spoke model to drive geographic growth, expand services, and drive energy efficiency solutions
July 2021	edko	Incline Equity Partners	Provides vegetation management services	Accelerate geographic expansion and service offerings through acquisitions and new service line initiatives
July 2021	Waypoint	ATS	Provides services for automation systems	The acquisition will enable ATS to grow in the Southeast region of the U.S. and provide increased capabilities and support for national accounts
July 2021	Stratus	VCP	A market-leading asset-light facilities services provider	Opportunity to expand into complementary service lines and reinforce current portfolio through acquisition and organic platform investment
June 2021	3Phase	Berkshire Partners	Provider of elevator and escalator services	The investment will help expand geographic footprint while further strengthening its exceptional customer service
June 2021	Amteck	Comfort Systems USA	Provides electrical contracting solutions	Brings complex project capabilities, customer relationships, design-build competence, and synergy in Comfort Systems' electrical segment
June 2021	Global HVAC and Automation	Kontrol Technologies	Provider of HVAC and automation services	Provides a roster of new customers and technical capabilities, which will support cross-selling opportunities
June 2021	Gil-Bar	ICG	Provider of HVAC services	ICG invested in Gil-Bar's market leadership position with an excellent management team and significant runway for growth
May 2021	Diverzify	ACON	Provider of commercial flooring services	Attracted to market-leading position, customer-centric focus, innovative solutions, and culture/ management team
Mar. 2021	Fixis	eltizam	Provider of facilities management services	The acquisition is a part of Eltizam's strategy to diversify its facilities business into multiple markets
Feb. 2021	Ashling Partners	THL	Provides automation services	The investment will support Ashling's growth in the U.S. and internationally, expand automation offerings, and support M&A activities
Jan. 2021	United Air Temp	Summit Park	Provider of residential HVAC services	Attracted to fragmented nature of market, essential service offering; will focus on geographic and service offering expansion

Sources: Company filings, S&P Capital IQ, Wall Street research.

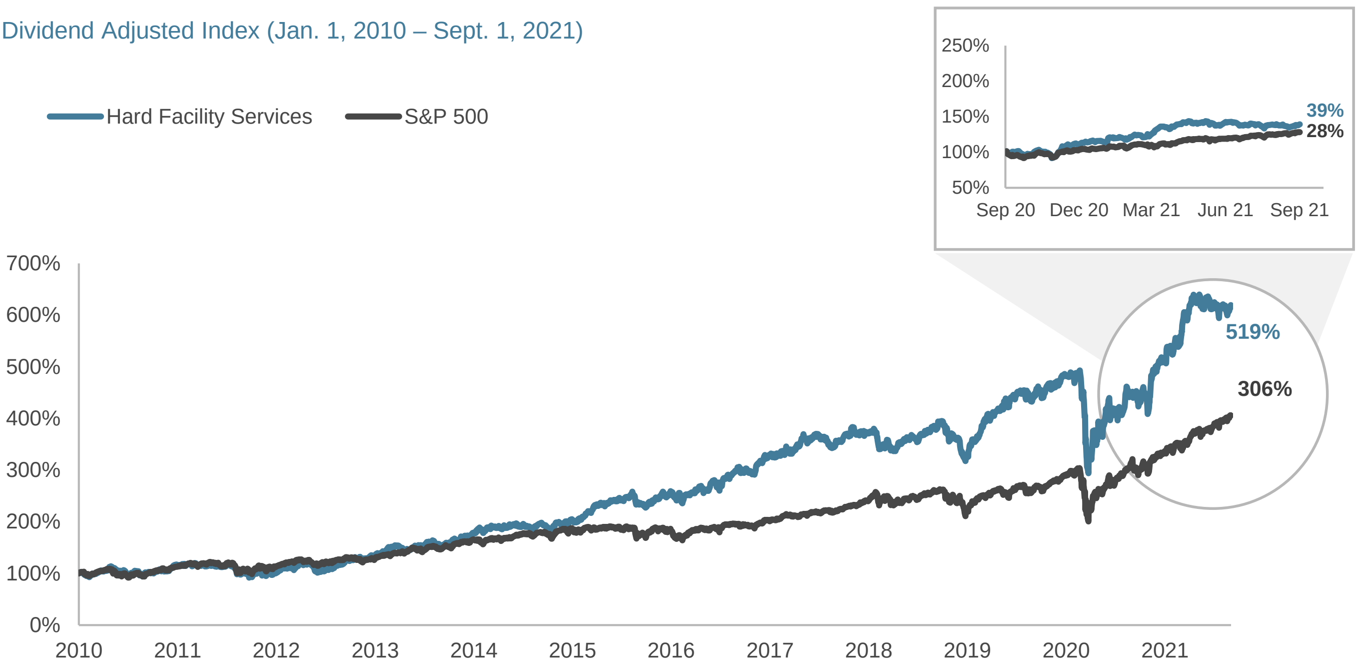
Hard Facility Services –
Public Company Coverage Universe

Hard facility services has been outperforming, with 519% growth since 2010 and 39% over the past 12 months.

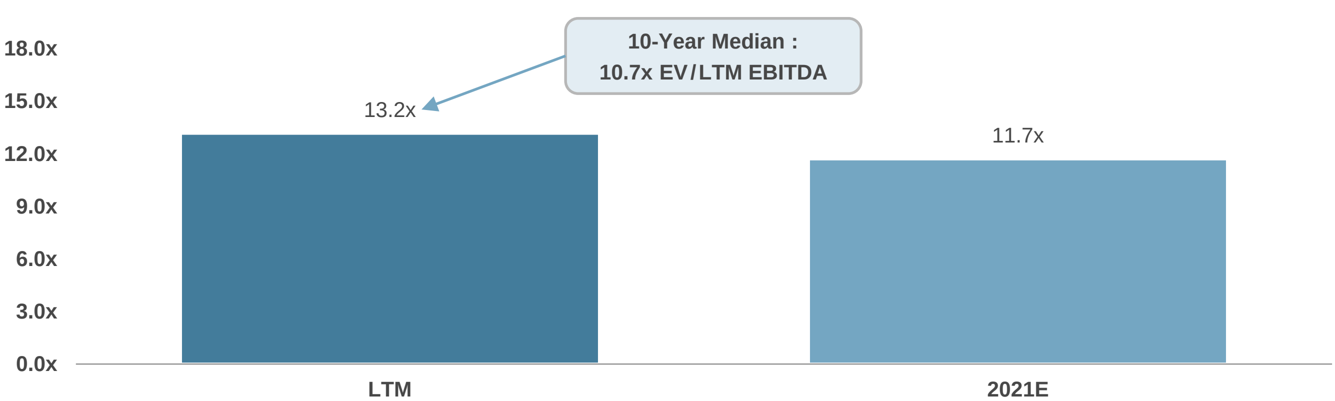
Select Public Hard Facility Services Players

Relative Stock Price Performance

Dividend Adjusted Index (Jan. 1, 2010 – Sept. 1, 2021)



EV/EBITDA Multiples



Source: S&P Capital IQ.
Note: Financials and trading multiples are based on share price and other market data listed as of September 1, 2021.

Disclaimer

© 2021 Houlihan Lokey. All rights reserved. This material may not be reproduced in any format by any means or redistributed without the prior written consent of Houlihan Lokey.

Houlihan Lokey is a trade name for Houlihan Lokey, Inc., and its subsidiaries and affiliates, which include those in (i) the United States: Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of FINRA (www.finra.org) and SIPC (www.sipc.org) (investment banking services); Houlihan Lokey Financial Advisors, Inc. (financial advisory services); HL Finance, LLC (syndicated leveraged finance platform); and Houlihan Lokey Real Estate Group, Inc. (real estate advisory services); (ii) Europe: Houlihan Lokey EMEA, LLP, and Houlihan Lokey (Corporate Finance) Limited, authorized and regulated by the U.K. Financial Conduct Authority; Houlihan Lokey (Europe) GmbH, authorized and regulated by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht); Houlihan Lokey GmbH; Houlihan Lokey S.p.A.; Houlihan Lokey (Netherlands) B.V.; Houlihan Lokey (España), S.A.; and Houlihan Lokey (Corporate Finance), S.A.; (iii) the United Arab Emirates, Dubai International Financial Centre (Dubai): Houlihan Lokey (MEA Financial Advisory) Limited, regulated by the Dubai Financial Services Authority for the provision of advising on financial products, arranging deals in investments, and arranging credit and advising on credit to professional clients only; (iv) Singapore: Houlihan Lokey (Singapore) Private Limited, an “exempt corporate finance adviser” able to provide exempt corporate finance advisory services to accredited investors only; (v) Hong Kong SAR: Houlihan Lokey (China) Limited, licensed in Hong Kong by the Securities and Futures Commission to conduct Type 1, 4, and 6 regulated activities to professional investors only; (vi) China: Houlihan Lokey Howard & Zukin Investment Consulting (Beijing) Co., Limited (financial advisory services); (vii) Japan: Houlihan Lokey K.K. (financial advisory services); and (viii) Australia: Houlihan Lokey (Australia) Pty Limited (ABN 74 601 825 227), a company incorporated in Australia and licensed by the Australian Securities and Investments Commission (AFSL number 474953) in respect of financial services provided to wholesale clients only. In the European Economic Area (EEA), Dubai, Singapore, Hong Kong, and Australia, this communication is directed to intended recipients, including actual or potential professional clients (EEA and Dubai), accredited investors (Singapore), professional investors (Hong Kong), and wholesale clients (Australia), respectively. Other persons, such as retail clients, are NOT the intended recipients of our communications or services and should not act upon this communication.

Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at the time this presentation was written, and this information is subject to change. Houlihan Lokey makes no representations or warranties, expressed or implied, regarding the accuracy of this material. The views expressed in this material accurately reflect the personal views of the authors regarding the subject securities and issuers and do not necessarily coincide with those of Houlihan Lokey. Officers, directors, and partners in the Houlihan Lokey group of companies may have positions in the securities of the companies discussed. This presentation does not constitute advice or a recommendation, offer, or solicitation with respect to the securities of any company discussed herein, is not intended to provide information upon which to base an investment decision, and should not be construed as such. Houlihan Lokey or its affiliates may from time to time provide investment banking or related services to these companies. Like all Houlihan Lokey employees, the authors of this presentation receive compensation that is affected by overall firm profitability.

HOULIHAN LOKEY

CORPORATE FINANCE

FINANCIAL RESTRUCTURING

FINANCIAL AND VALUATION ADVISORY

HL.com