



The Blueprint: Trends in the Construction Industry



Chartwell Financial Advisory

Q3 2022

The Blueprint: Trends in the Construction Industry

Chartwell's construction practice serves more than 100 industry participants throughout the United States. Our team of professionals has experience with construction firms of various sizes and specialties. We provide ownership advisory, corporate finance, transaction opinion, and business valuation services to middle-market companies.

The Blueprint focuses on current M&A and public market trends within the construction sector.

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Welcome to the Q3 2022 edition of The Blueprint! After successfully negotiating a pandemic, supply chain issues, a tight labor market, and permitting delays, the construction industry is now contending with rising interest rates and tightening financial conditions. M&A activity remains robust but softened in Q3 after achieving eight consecutive quarters of growth on a quarter-over-quarter basis. We are excited to feature an update on the contract surety bond market from Ben Williams of Holmes Murphy & Associates, a leading employee-owned property casualty insurance, surety, and employee benefits brokerage firm with expertise in the construction industry.

Our intention with this newsletter is to provide you with information on the broader construction industry coupled with M&A and public market trends and insights from some of the biggest names in the construction world. The Blueprint is published bi-annually in Q1 and Q3.

We hope you enjoy this content and please let us know if there are any topics you would like to see included in future issues.

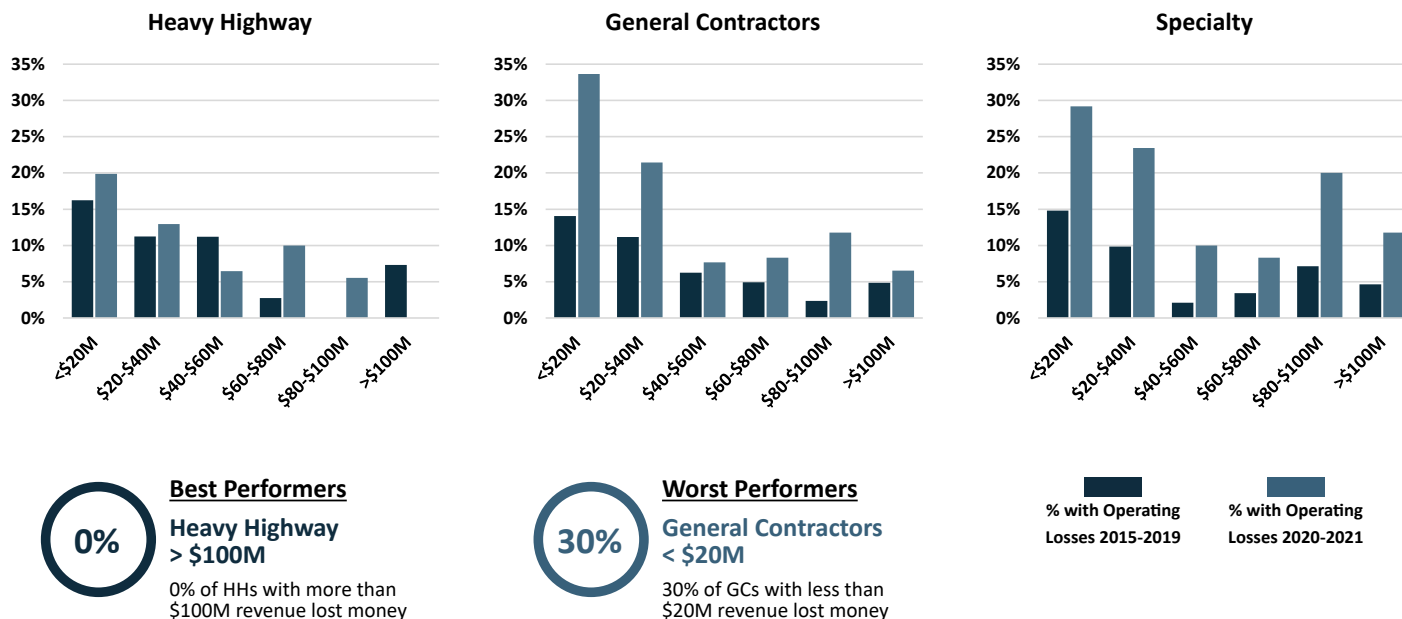
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Contract Surety Bond Update, Provided by Holmes Murphy & Associates

Operating Losses by Trade & Size



The last 18 months have been challenging for the construction industry as material shortages and high costs have affected most sectors and trades. However, as contractor backlogs remained high, most construction companies successfully navigated these choppy waters. So, how did these conditions affect the surety bond industry, and where do we go heading into 2023?

The Surety and Fidelity Association of America's most recent results are through Q2 2022. They show the industry on pace for another record year in terms of written premium and potential profits. Through six months, the surety industry wrote \$4.3 billion in premium and incurred losses of \$544,301,050. That is a loss ratio of 14.1%. A year earlier, the industry featured \$3.6 billion in written premium, losses of \$538,883,157, and a loss ratio of 15.5%. This means the industry grew premiums 17.5% in the first half of 2022 while decreasing their losses. Much of this growth can be attributed to increased contract costs, with the price of material and labor increasing by similar amounts. Still, if these results continue through the end of 2022, it will be a record year for the surety industry.

On the surface, one might think this is all positive news for surety and contractors. However, surety results often trail the general economy. Contractors are more likely to suffer surety claims

when they have too much work. More backlog generally requires more supervision, more cash, and better control systems. All these present more risk to a contractor and their surety. A rising interest rate environment will put additional pressure on contractors using debt to fund operations and equipment. Other factors, such as a diesel fuel shortage and significant cost increases, could drive future losses.

Some cracks have already begun to show. Holmes Murphy tracks industry performance by trade and revenue. Between 2020 and 2021, 25% of specialty trade contractors with revenue between \$20 and \$40 million lost money. Compare that to less than 10% between 2015 and 2019. Specialty trade contractors are not alone. The percentage of general contractors losing money jumped across all sizes and particularly for those with revenue below \$40 million. Some of these losses can be attributed to strategic decisions meant to reduce tax burdens after contractors benefited from PPP money. However, many of these losses were unplanned and reflect a challenging construction environment.

Surety bond companies are likely seeing similar results with their customers and their books of business. This may give some bond companies reason to take a more conservative approach when writing new accounts or stretching capacity.

Contract Surety Bond Update (continued)

Whether that holds up will depend on if losses follow. If strong growth and profitability continue through year end, it will pressure bond companies to keep expanding.

We expect to see the surety industry fall somewhere in the middle. Surety bond companies will likely scrutinize some contractors more heavily, such as trade contractors relying on debt to fund operations or with heavy labor needs. We will also see bond companies take a more conservative approach on private equity transactions where the surety industry has suffered losses over the last 12 months. However, the surety industry does seem to be getting more comfortable with transactions that keep disruption to a minimum such as internal sales and ESOP transactions.

For accounts with strong balance sheets and good operations, surety conditions are expected to remain very soft. This may be especially true in the heavy civil space where profitability has been excellent and infrastructure money will soon turn into plenty of backlog for contractors.

The residential market could both help and hurt commercial contractors. The complete stoppage of residential work could trigger a much needed boost to the labor pool. On the other hand, when the residential market dried up during the Great Recession, many residential contractors decided to enter the commercial space. This increased competition put pressure on profits that persisted until the residential market recovered. Contractors should be aware that this may happen again. Contractors may also need to spend more resources prequalifying subcontractors that may not have experience working in the commercial space.

Plentiful backlog and opportunity should keep contractors positive heading into 2023. However, all contractors should have a plan for potential headwinds, even if they do not occur, and communicating those plans to your bond company will be important to keep surety credit flowing. ■

About the Author

Ben Williams, AFSB is the Surety Director at Holmes Murphy & Associates. Ben has over 15 years of experience working with complex businesses on their surety and risk management needs. Ben is a part of Holmes Murphy's ESOP practice and works with clients throughout the U.S. on the unique surety challenges faced by employee-owned companies.

[Connect with Ben Williams on LinkedIn](#)

Holmes Murphy is property casualty insurance, surety, and employee benefit brokerage firm with offices throughout the Midwest. Holmes Murphy has specialty teams who focus on private and public companies in the construction, architecture & engineering, and manufacturing sectors. Holmes Murphy operates a dedicated ESOP practice to provide risk management and resources to employee-owned companies.

[Learn More About Holmes Murphy](#)



Mature ESOP Issues for Construction Companies

Chartwell recently hosted a webinar highlighting mature ESOP issues prevalent for construction companies. Certain industry-specific dynamics exacerbate these employee ownership issues and Chartwell stands ready to help you sort through the many potential solutions.

Didn't get a chance to join us?

[Request the Webinar Recording](#)

Industry Activity Indicators

September 2022 Construction Spending

	\$ Billion	3MMA	12MMA
Private Nonresidential	\$532.3	8.9%	5.0%
Power	\$112.7	35.8%	25.3%
Commercial	\$111.3	22.7%	17.6%
Manufacturing	\$98.2	(13.5%)	(7.8%)
Office	\$74.2	(0.5%)	(3.2%)
Healthcare	\$40.3	9.4%	5.3%
Lodging	\$24.4	(1.4%)	(0.1%)
Communication	\$18.5	16.6%	11.6%
Education	\$17.8	10.1%	(17.1%)
Public Nonresidential	\$351.6	6.3%	(1.0%)
Highway & Street	\$108.4	8.1%	1.6%
Education	\$78.2	(1.3%)	(7.9%)
Transportation	\$40.1	1.5%	(4.9%)
Sewage & Waste	\$31.8	133.4%	7.5%
Water Supply	\$23.9	27.0%	10.6%
Power	\$9.6	7.6%	7.6%

Seasonally Adjusted Annual Rate
Source: U.S. Census Bureau

AIA Consensus Construction Forecast

	2022	2023
Nonresidential Total	9.1%	6.0%
Commercial Total	6.7%	4.5%
Office	2.6%	3.5%
Retail & Other Commercial	11.5%	3.2%
Hotel	(5.4%)	13.8%
Industrial Total	31.0%	9.9%
Institutional Total	2.6%	5.5%
Health	5.0%	5.7%
Education	2.0%	5.2%
Religious	(8.7%)	(1.1%)
Public Safety	(10.0%)	5.5%
Amusement & Recreation	7.5%	5.8%

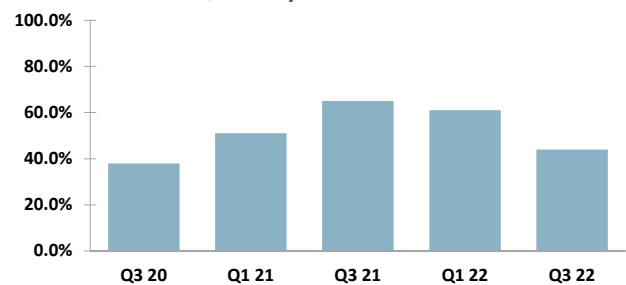
Source: American Institute of Architects (July 2022)

September 2022 Construction Starts - Last 12 Months

	Y-Y	M-M	% of Total
Apartment	57.6%	13.1%	20.5%
Commercial	28.0%	14.8%	19.2%
Commercial	46.0%	13.5%	7.4%
Lodging	122.6%	31.8%	1.1%
Office	9.2%	11.9%	7.2%
Other	0.5%	15.6%	3.5%
Education/Healthcare	14.9%	13.4%	15.8%
Education	7.5%	11.8%	10.4%
Healthcare	28.9%	16.2%	5.5%
Industrial	148.1%	19.2%	15.7%
Energy/Chemical	265.2%	21.1%	3.2%
Manufacturing	362.4%	24.7%	3.5%
Warehouse	22.4%	10.3%	9.0%
Infrastructure	23.4%	24.0%	28.8%
Bridge	29.5%	10.1%	2.8%
Environmental	(34.3%)	12.5%	0.5%
Highway	2.2%	15.5%	8.0%
Infrastructure	91.6%	45.9%	8.4%
Power	(20.0%)	4.8%	9.1%
Total	49.6%	17.5%	100.0%

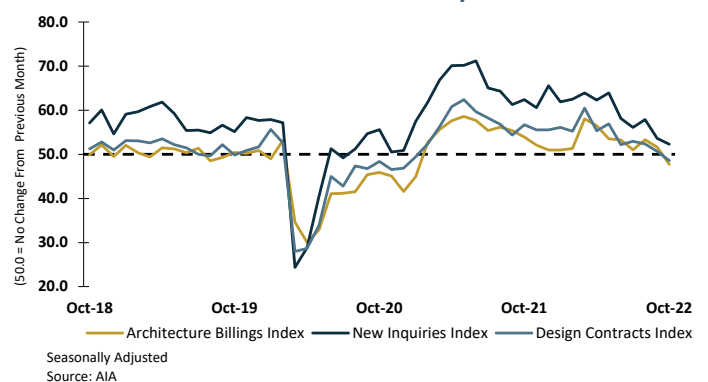
Projects \$20.0 million and above
Sources: KeyBanc and Dodge Data & Analytics

ENR Quarterly Confidence Index



Source: Engineering News Record

Work-on-the-Boards Survey Data

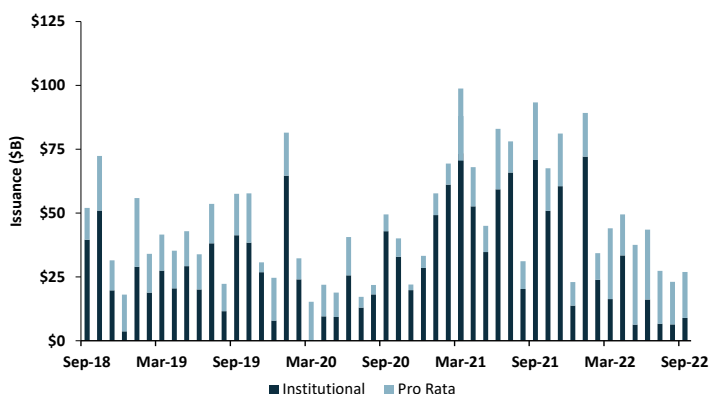


Capital Markets Update

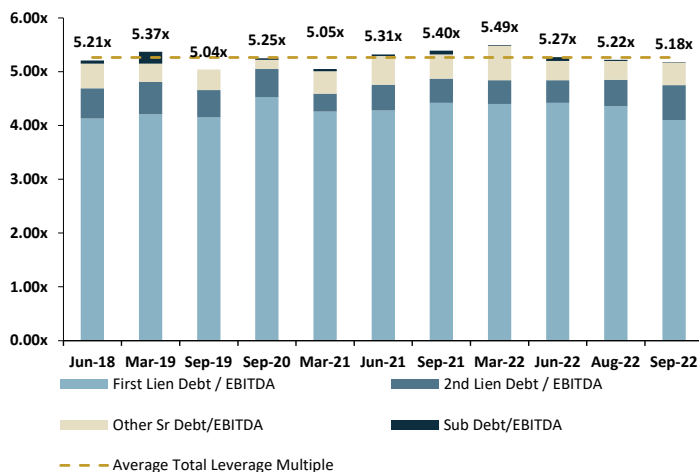
As inflation concerns and corresponding rate hikes continue to drive volatility in the public equities market, debt capital providers have pulled back on new issuance volume, leverage, and covenant flexibility.

- Loan issuances dropped to a post-GFC low in middle quarters of 2022 as investors shunned risk in uncertain conditions; in particular, providers of syndicated facilities are wary of committing to offerings as market pricing has shifted dramatically for previously sought-after credits
- Rising costs have slowed refinancings, new issuances, and sales as owners and investors struggle with the valuation impact of the higher cost of debt
- The market remains hawkish going forward, with participants expecting continued volatility and higher pricing acting as a drag on capital issuances for the foreseeable future

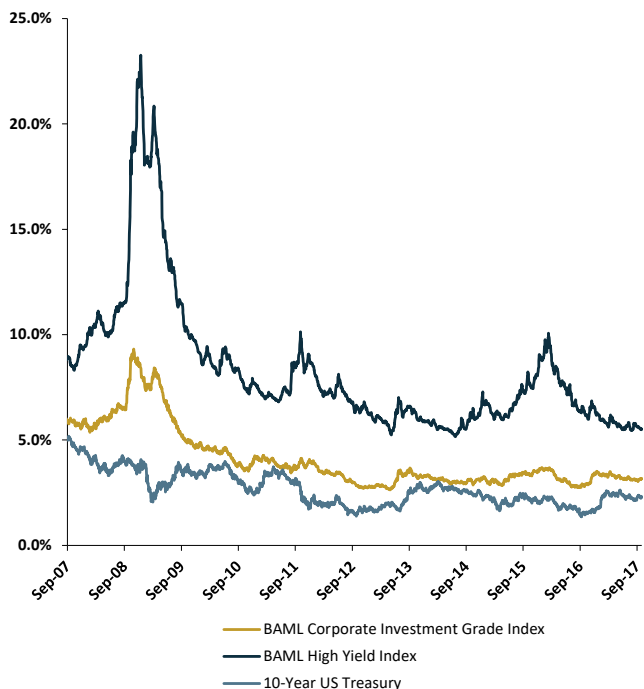
U.S. Leveraged Loan Issuance



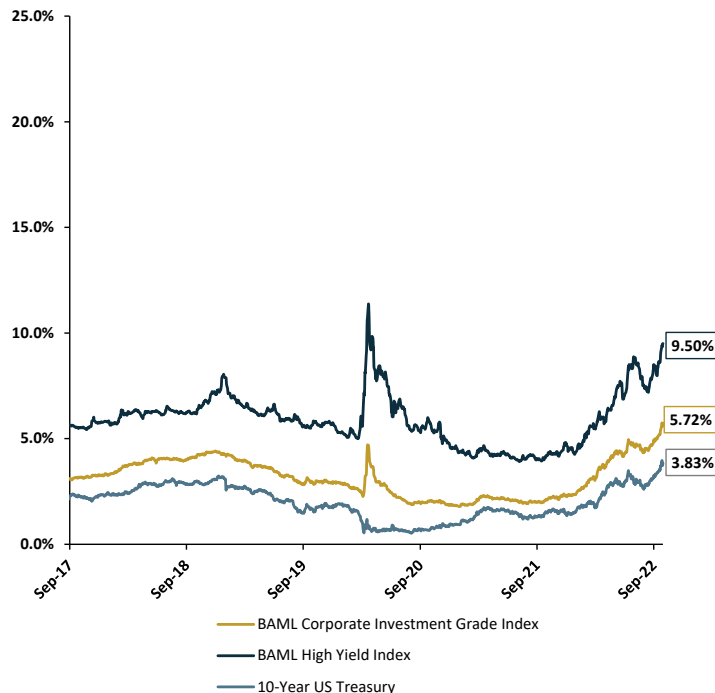
Historical Debt Multiples of Highly Leveraged Loans



Historical Interest Rates



Current Interest Rates



Merger & Acquisition Activity - Q2 & Q3 2022

Western Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
4/5/2022	American Residential Services L.L.C.	ESCO Services Inc.	West Valley City, UT	HVAC services
4/11/2022	Phoenix Tower International LLC	Technology Associates EC, Inc.	Carlsbad, CA	Telecommunication services
5/3/2022	J.F. Brennan Company, Inc.	Harbor Offshore, Inc.	Ventura, CA	Marine maintenance services
5/23/2022	Installed Building Products, Inc.	Statewide Insulation Inc.	Santa Clara, CA	Flooring, drywall, and insulation services
5/26/2022	H.I.G. Capital, LLC	Terra Millennium Corporation	Salt Lake City, UT	Refractory services
6/22/2022	Atlantic Southern Paving and Sealcoating, LLC	Diamond Black Paving Inc	Hayward, CA	Pavement services
7/6/2022	Pueblo Mechanical & Controls, LLC	Procraft Mechanical, Inc.	Broomfield, CO	Mechanical, electrical and plumbing services
7/12/2022	TRC Companies, Inc.	Blue Oak Energy, Inc.	Davis, CA	Energy services
7/13/2022	Sun Capital Partners, Inc.	Andersen Commercial Plumbing, Inc.	La Verne, CA	Mechanical, electrical and plumbing services
7/14/2022	Sciens Building Solutions, LLC	Cen-Cal Fire Systems, Inc.	Lodi, CA	Mechanical, electrical and plumbing services
8/9/2022	Independent Power Systems, Inc.	Windward Construction LLC	Boulder, CO	Electrical services
8/23/2022	RailWorks Corporation	H & H Engineering Construction, Inc.	Stockton, CA	Civil construction services
9/15/2022	SPECTRA Contract Flooring	Colorado Resources Company	Denver, CO	Flooring, drywall, and insulation services

Southwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
4/4/2022	D&H United Fueling Solutions, Inc.	Cochise Contractors, Inc.	Phoenix, AZ	General contracting services
4/4/2022	Southland Industries, Inc.	Brandt Mechanical Services, Inc.	Carrollton, TX	Mechanical, electrical and plumbing services
5/4/2022	Argonaut Private Equity; Argonaut Private Equity Fund V, LP	Bandera Utility Contractors, LLC	McKinney, TX	Excavation and sitework services
5/8/2022	W.E. O'Neil Construction Company, Inc.	DCA Construction, LP	Austin, TX	General contracting services
5/17/2022	EEC Acquisition LLC	Almcoe Refrigeration Company, LLC	Dallas, TX	HVAC services
6/23/2022	Air Pros, LLC	Dallas Plumbing Company	Dallas, TX	Mechanical, electrical and plumbing services

Merger & Acquisition Activity - Q2 & Q3 2022

Southwestern Region (continued)				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
6/29/2022	KCI Technologies Inc.	AmChel Communications, Inc.	Wylie, TX	Civil construction services
7/7/2022	Real Floors, Inc.	Arbor Contract Carpet Inc.	Irving, TX	Flooring, drywall, and insulation services
8/1/2022	Primoris Services Corporation	PLH Group, Inc.	Irving, TX	Energy services
8/17/2022	Valet Living, LLC	Contemporary Contractors, Inc.	Irving, TX	Flooring, drywall, and insulation services
8/26/2022	KLH Capital Partners, L.P.	Thorpe Specialty Services Corporation	Houston, TX	Flooring, drywall, and insulation services
9/1/2022	Caprice Capital Partners, LLC; Shadow Lake Partners	Alliance Plumbing Service & Repair, Inc.	Phoenix, AZ	Mechanical, electrical and plumbing services
9/20/2022	Valet Living, LLC	Perfect Surface LLC	Houston, TX	Construction services
9/22/2022	Hi Solutions, Inc.	Medley Communications, Inc.	Tempe, AZ	Telecommunication services
9/29/2022	Rite Way Heating, Cooling and Plumbing, LLC	Southern Arizona Plumbing LLC	Tucson, AZ	Mechanical, electrical and plumbing services

Midwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
4/1/2022	Pallen/Kimball, L.L.C.	Signature Mechanical, Inc.	Spring Lake, MI	Mechanical, electrical and plumbing services
4/4/2022	NA	Beaudoin Electrical Construction, Inc.	Sodus, MI	Electrical services
4/4/2022	Kokosing Construction Company, Inc.	Third Sun Solar Ltd. (nka:Third Sun Kokosing Solar)	Athens, OH	Energy services
4/6/2022	PSP Capital Partners, LLC	StormTrap, LLC	Romeoville, IL	Excavation and sitework services
4/8/2022	Heartland Home Services, Inc.	Deljo Heating & Cooling, Inc.	Chicago, IL	HVAC services
4/26/2022	Heartland Home Services, Inc.	Blue Frost Heating & Cooling	West Chicago, IL	HVAC services
5/6/2022	Heartland Home Services, Inc.	Williams Refrigeration & Heating, Inc.	Warren, MI	HVAC services
5/10/2022	Tecta America Corporation	Pioneer Roofing, LLC	Johnson Creek, WI	Roofing services
5/17/2022	Suburban Drywall, Inc.	Applewood Drywall Service, Inc.	Waukesha, WI	Flooring, drywall, and insulation services
6/27/2022	Watterson Environmental Group, LLC	Bassett Creek Services, Inc.	Chicago, IL	Restoration construction services

Merger & Acquisition Activity - Q2 & Q3 2022

Midwestern Region (continued)				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/14/2022	CPS HVAC Partners, Inc.	Schuler Enterprises, LLC	Oklahoma City, OK	Mechanical, electrical and plumbing services
7/25/2022	MasTec, Inc.	Infrastructure and Energy Alternatives, Inc.	Indianapolis, IN	Energy services
7/25/2022	NA	Kellermeier Holdings, Inc.	Rockford, MI	Mechanical, electrical and plumbing services
8/2/2022	Soundcore Capital Partners, LP	ACI Asphalt & Concrete, Inc.	Maple Grove, MN	Pavement services
8/15/2022	Tecta America Corporation	Mahaney Group, Inc. (nka:1888 Group, Inc.)	Wichita, KS	Roofing services
8/19/2022	Elite Construction Solutions, LLC	123 Exteriors, Inc.	Waukesha, WI	Roofing services
9/13/2022	CES Power LLC	Brickworks, LLC	Cleveland, OH	Flooring, drywall, and insulation services

Northeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
4/14/2022	LeChase Construction Services, LLC	Sano-Rubin Construction Co., Inc.	Albany, NY	General contracting services
4/18/2022	Heartland Home Services, Inc.	Custom Mechanical, Inc.	Frankford, DE	HVAC services
5/5/2022	Caterpillar Inc.	Tangent Energy Solutions, Inc.	Kennett Square, PA	Energy services
5/5/2022	Best in Class Technology Services	Mountain Air Systems, Inc.	Williston, VT	HVAC services
5/12/2022	REAC	Retro Environmental, Inc.	Sykesville, MD	Demolition services
5/12/2022	Axium Infrastructure Inc.	BlueWave Solar, LLC	Boston, MA	Energy services
5/24/2022	Clark Computer Services Inc.	A-1 Telecommunications, LLC	Frederick, MD	Telecommunication services
5/31/2022	The Arcticom Group, LLC	Tomco Mechanical Corporation	Westbury, NY	HVAC services
5/31/2022	Westinghouse Electric Company LLC	BHI Energy, Inc.	Weymouth, MA	Mechanical, electrical and plumbing services
6/8/2022	Lawman Heating and Cooling, Inc.	LUNDY CONSTRUCTION CO. INC.	Williamsport, PA	General contracting services
7/27/2022	NA	R. S. Mowery & Sons, Inc.	Mechanicsburg, PA	General contracting services
8/4/2022	BluSky Restoration Contractors, LLC	Pro-Care, Inc.	Woburn, MA	Restoration construction services

Merger & Acquisition Activity - Q2 & Q3 2022

Northeastern Region (continued)				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
8/12/2022	PremiStar, LLC	Mechanical Services, Inc.	Portland, ME	HVAC services
8/22/2022	Anser Advisory, LLC	LaFata Contract Services, LLC	King of Prussia, PA	General contracting services
9/13/2022	Correlate Infrastructure Partners Inc.	Aegis Renewable Energy, Inc.	Waitsfield, VT	Energy services
9/20/2022	SunGrid Solutions	Black Electric Inc.	Poughkeepsie, NY	Electrical services
9/28/2022	ReVamp Companies	Apollo Concrete Coatings	Orchard Park, NY	Flooring, drywall, and insulation services

Southeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
4/1/2022	Comfort Systems USA, Inc.	Atlantic Electric, LLC	North Charleston, SC	Electrical services
4/1/2022	The Cianbro Companies	R.C. Stevens Construction Company	Winter Garden, FL	General contracting services
4/4/2022	Young's Communications, LLC	Atlantic Engineering Group, Inc.	Buford, GA	Telecommunication services
4/8/2022	Infra Build Holdings, LLC	Hypower Inc.	Fort Lauderdale, FL	Electrical services
4/13/2022	CPS HVAC Partners, Inc.	Action Heating & Cooling, Inc.	Crossville, TN	HVAC services
4/15/2022	DGI-Menard, Inc.	Earth Tech, Inc.	Land O'Lakes, FL	Excavation and sitework services
4/18/2022	Heartland Home Services, Inc.	Total Business Management, Inc.	Lexington, KY	HVAC services
4/29/2022	Energy Services of America Corporation	Tri-State Paving & Sealcoating, LLC	Hurricane, WV	Pavement services
5/2/2022	Fidelity Engineering, LLC	H. E. Neumann Company	Triadelphia, WV	Mechanical, electrical and plumbing services
5/11/2022	Mobilitie, LLC	Signal Point Systems, Inc.	Kennesaw, GA	Mechanical, electrical and plumbing services
5/13/2022	CRH Americas Materials, Inc.	Hinkle Contracting Company, LLC	Paris, KY	Pavement services
5/23/2022	Kane Communications, LLC	Premiere Communications & Consulting, Inc.	Raleigh, NC	Telecommunication services
5/24/2022	Strikepoint Group Holdings, Inc.	Pinellas Comfort Systems, Inc.	Clearwater, FL	HVAC services
5/31/2022	Altamont Capital Management, LLC	Service Minds, Inc.	Sarasota, FL	Electrical services

Merger & Acquisition Activity - Q2 & Q3 2022

Southeastern Region (continued)				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
6/6/2022	Tecta America Corporation	Katchmark Construction, Inc.	Chantilly, VA	Roofing services
6/10/2022	Air Pros, LLC	Personalized Air Conditioning, Inc.	Boca Raton, FL	HVAC services
6/14/2022	Posillico Civil, Inc.	Martins Construction Corp.	Falls Church, VA	Civil construction services
6/27/2022	Southern HVAC Corporation	Thad Hedrick Builders, LLC	Lexington, NC	HVAC services
6/28/2022	EEC Acquisition LLC	Dutton Food Equipment Repair, Inc.	Richmond, VA	HVAC services
6/30/2022	Forte and Tablada, Inc.	Boyd Holmes Engineering, Inc.	Baton Rouge, LA	Civil construction services
6/30/2022	H.R.L. Morrison & Co (US), LLC; Australian Retirement Trust	FiberLight, LLC	Alpharetta, GA	Telecommunication services
7/1/2022	Babe's Plumbing, Inc.	Wm. F. McDonough Plumbing, Inc.	Port Charlotte, FL	Mechanical, electrical and plumbing services
7/20/2022	NearU Services	MTB Mechanical, Inc.	Matthews, NC	HVAC services
7/25/2022	Calvert Street Capital Partners, Inc.	Rowland, Inc.	Pinellas Park, FL	General contracting services
7/26/2022	Atlantic Southern Paving and Sealcoating, LLC	Massey Asphalt Paving, Inc.	Trussville, AL	Pavement services
8/3/2022	American Elevator Corporation	Madden Consulting, Inc.	Louisville, KY	Elevator maintenance services
8/11/2022	ReVamp Companies	Flagler Concrete Coatings LLC	Bunnell, FL	Flooring, drywall, and insulation services
8/17/2022	BMS CAT, Inc.	G. L. Strickland Construction, Inc.	Fayetteville, NC	Restoration construction services
8/22/2022	Concrete Pumping Holdings, Inc.	Coastal Carolina Pumping, Inc.	Charlotte, NC	Pavement services
8/25/2022	WaterHeaterHub.com	Stokes Plumbing, LLC	Florence, SC	Mechanical, electrical and plumbing services
9/14/2022	Crete Mechanical Group, Inc.	AC Corporation	Greensboro, NC	HVAC services
9/20/2022	TranSystems Corporation	SEPI Engineering & Construction, Inc.	Raleigh, NC	Civil construction services
9/28/2022	Legacy Restoration LLC	Janney Construction Services LLC	Orlando, FL	Roofing services

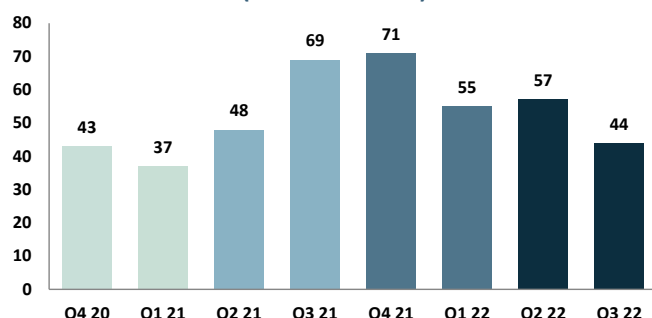


Merger & Acquisition Activity – Chartwell Commentary

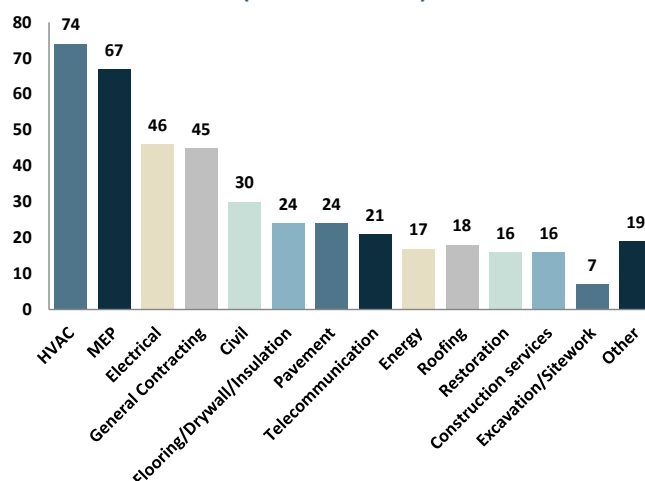
Select International				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
5/19/2022	Excelpro Groupe Inc.	Conrad Lavoie (1983) Inc.	Sorel-Tracy, QC	Electrical services
6/9/2022	NA	AMEC Cutting & Coring Limited	Langley, BC	Pavement services
7/19/2022	Pomerleau Inc.	ITC Construction Group	Vancouver, BC	General contracting services
7/20/2022	Alberta Investment Management Corporation	Cando Rail Services Ltd.	Brandon, MB	Civil construction services
7/28/2022	First Lithium Minerals Inc./QL Minerals Inc.	PetroCorp Group Inc.	Thornhill, ON	Electrical services

Source: Capital IQ, Data as of 9/30/2022

**Construction Industry Transactions by Quarter
(Past 24 months)**



**Construction Industry Transactions by Sector
(Past 24 months)**



Deal activity has been robust since the early days of the pandemic but experienced its first decline relative to the prior quarter in Q3 22 with 44 closed deals. Nevertheless, deal activity remains elevated relative to pre-pandemic levels. Deal activity for HVAC, MEP, and electrical contractors has been particularly healthy during the past 24 months, accounting for approximately 44% of total transactions. The Southwest region led the way with 33 closed deals during the past two quarters, followed by the Northeast and Midwest each with 17 closed deals.

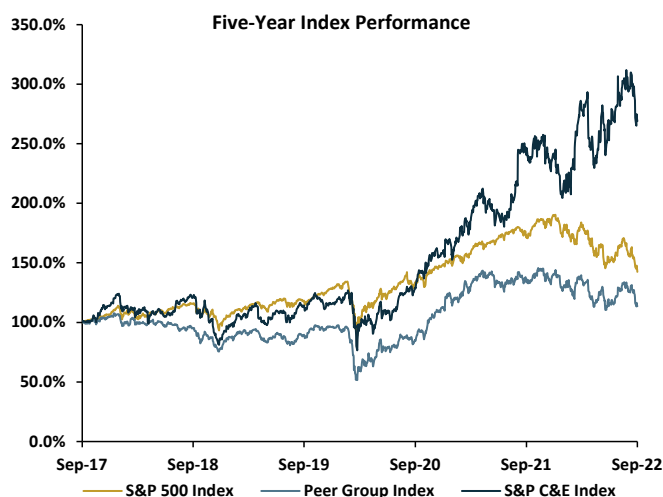
As evidenced by the deal roll detailed on the previous pages, private equity continues to add to its holdings in the construction industry. Although strategic acquirers still dominate the landscape, private equity's aggressiveness in the market remains a major trend, driving multiples higher across the engineering and construction landscape.

On July 25, 2022, MasTec, Inc. ("MasTec") entered into a definitive agreement to acquire Infrastructure and Energy Alternatives, Inc. ("IEA") for \$1.1 billion. The transaction closed on October 7, 2022 and was funded with approximately \$600 million in cash and the balance of the consideration in shares of MasTec. The implied enterprise value equaled \$1.1 billion and represented 4.0x trailing EBITDA and 6.6x next twelve months EBITDA. During the prior year, IEA traded between 2.2x and 3.7x trailing EBITDA and between 3.9x and 6.4x forward EBITDA.

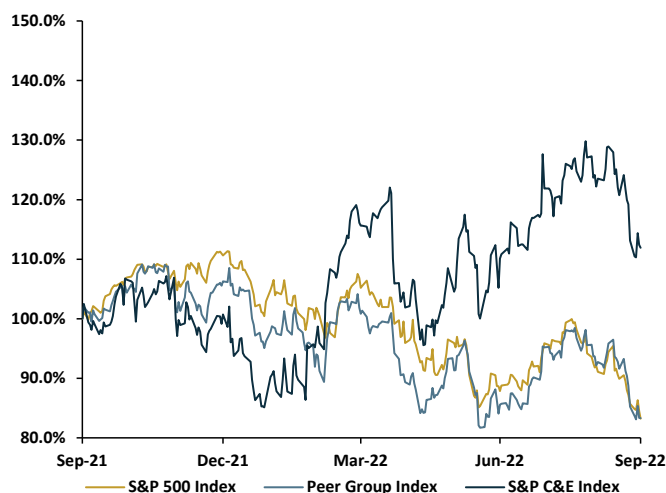
MasTec highlighted the following factors as the primary rationale for the acquisition: expanded presence in the renewable power generation, civil, and infrastructure markets; expanded renewable power capabilities in union areas and non-union crew capacity in a tight labor market; access to renewable power union projects and customers; strong levels of visible backlog with recurring customer base; and, experienced leadership team and cultural fit.

Chartwell Public Company Construction Index

Five-Year Index Performance



One-Year Index Performance



Chartwell's Construction Index ("Construction Index") is comprised of 24 companies representing a broad cross section of firms in the commercial construction industry (excludes homebuilders). While many of these companies have multiple service lines, we have attempted to capture firms that generate the majority of their revenue from contracting services.

The S&P Construction & Engineering ("C&E") Index outperformed both the S&P 500 Index and the Construction Index during the past year. The C&E Index was buoyed by continued investor appetite for engineering firms given their financial resiliency throughout the pandemic and continued optimism for the AE sector.

In general, the companies in the Construction Index continue to perform well as median revenue growth totaled 10.9% during the twelve months ended September 30, 2022. However, four of the member companies experienced a double-digit revenue decline during the past year. Individual company performance continues to be affected by industry and end market concentration. Market expectations for the member companies remains strong as 16 of the 21 companies with estimates are expecting median growth of 8.1% during the next twelve months.

The median EBITDA margin of the Construction Index totaled 6.2% for the twelve months ended September 30, 2022 and all but two members generated positive margins during the past year. Expectations for profitability remain strong as all companies with estimates expect higher margins over the next twelve months.

Analyzing multiples continues to be a challenge, especially given the broader market declines during the first nine months of 2022 and limited reference points given volatile EBITDA for many companies over the past few years. The latest median EBITDA multiple for the Construction Index of 10.5x is down when compared to 11.2x a year earlier and compares to 10.2x averaged over the past five years indicating minimal movement in valuation. However, when reviewing the companies individually, there has been quite a bit of volatility during the past year as half of the companies exhibited a lower multiple as compared to the prior year with a median decline of 19.0%.

Industry Involvement:

Chartwell is a proud member of the country's leading construction organizations



Construction Index Market Performance – Q3 2022

		Enterprise Value					Equity Value				
Company Name	Ticker	9/30/ 2021	3/31/ 2022	9/30/ 2022	6-Mo. Δ	LTM Δ	9/30/ 2021	3/31/ 2022	9/30/ 2022	6-Mo. Δ	LTM Δ
HOCHTIEF Aktiengesellschaft	XTRA:HOT	10,988	9,837	7,459	(24.2%)	(32.1%)	5,480	4,631	3,602	(22.2%)	(34.3%)
Quanta Services, Inc.	NYSE:PWR	19,162	22,510	22,641	0.6%	18.2%	15,838	18,779	18,220	(3.0%)	15.0%
Skanska AB (publ)	OM:SKA B	11,657	10,474	6,431	(38.6%)	(44.8%)	10,404	9,332	5,177	(44.5%)	(50.2%)
EMCOR Group, Inc.	NYSE:EME	6,992	6,181	6,666	7.8%	(4.7%)	6,202	5,932	5,699	(3.9%)	(8.1%)
Balfour Beatty plc	LSE:BBY	3,476	2,735	2,766	1.2%	(20.4%)	2,331	2,137	2,045	(4.3%)	(12.3%)
MasTec, Inc.	NYSE:MTZ	8,276	8,521	7,440	(12.7%)	(10.1%)	6,251	6,505	4,690	(27.9%)	(25.0%)
API Group Corporation	NYSE:APG	6,780	6,746	6,491	(3.8%)	(4.3%)	4,649	4,975	3,155	(36.6%)	(32.1%)
Tutor Perini Corporation	NYSE:TPC	1,689	1,540	1,358	(11.8%)	(19.6%)	663	552	283	(48.6%)	(57.2%)
Primoris Services Corporation	NasdaqGS:PRIM	2,313	1,868	1,786	(4.4%)	(22.8%)	1,316	1,270	865	(31.9%)	(34.3%)
Comfort Systems USA, Inc.	NYSE:FIX	2,945	3,576	4,145	15.9%	40.8%	2,581	3,190	3,471	8.8%	34.5%
Dycom Industries, Inc.	NYSE:DY	3,115	3,644	3,768	3.4%	21.0%	2,149	2,821	2,823	0.1%	31.3%
Aecon Group Inc.	TSX:ARE	1,456	1,418	949	(33.1%)	(34.9%)	915	827	423	(48.8%)	(53.7%)
Granite Construction Incorporated	NYSE:GVA	2,321	1,848	1,555	(15.9%)	(33.0%)	1,812	1,505	1,119	(25.6%)	(38.2%)
MYR Group Inc.	NasdaqGS:MYRG	1,736	1,598	1,545	(3.3%)	(11.0%)	1,678	1,594	1,411	(11.5%)	(15.9%)
IES Holdings, Inc.	NasdaqGM:IESC	1,098	932	776	(16.7%)	(29.3%)	951	835	566	(32.2%)	(40.5%)
Sterling Infrastructure, Inc.	NasdaqGS:STRL	1,017	1,240	1,232	(0.6%)	21.1%	652	810	651	(19.7%)	(0.2%)
Bird Construction Inc.	TSX:BDT	570	511	352	(31.2%)	(38.3%)	418	393	233	(40.6%)	(44.2%)
Construction Partners, Inc.	NasdaqGS:ROAD	1,871	1,650	1,742	5.6%	(6.9%)	1,745	1,376	1,378	0.2%	(21.0%)
Great Lakes Dredge & Dock Corporation	NasdaqGS:GLDD	1,411	1,245	942	(24.3%)	(33.2%)	991	924	501	(45.8%)	(49.4%)
Matrix Service Company	NasdaqGS:MTRX	282	220	140	(36.3%)	(50.3%)	279	220	111	(49.6%)	(60.3%)
Orion Group Holdings, Inc.	NYSE:ORN	217	108	147	35.8%	(32.4%)	168	77	83	7.4%	(50.9%)
North American Construction Group Ltd.	TSX:NOA	744	702	570	(18.8%)	(23.4%)	411	413	261	(36.7%)	(36.4%)
Limbach Holdings, Inc.	NasdaqCM:LMB	136	105	150	43.6%	10.6%	68	72	79	9.6%	16.8%
Energy Services of America Corporation	NasdaqCM:ESOA	33	55	63	14.0%	90.5%	23	47	48	2.2%	110.8%
Average		3,762	3,719	3,380	(6.2%)	(10.4%)	2,832	2,884	2,371	(21.0%)	(19.0%)
Median		1,803	1,624	1,550	(4.1%)	(20.0%)	1,497	1,323	992	(23.9%)	(33.2%)

\$ in millions

Source: Capital IQ, Data as of 9/30/2022

Construction Index Financial Performance – Q3 2022

	Revenue			EBITDA			EBITDA Margin		
Company Name	LTM \$	LTM % Δ	NTM % Δ	LTM \$	LTM % Δ	NTM % Δ	5-Year Avg.	LTM	NTM
HOCHTIEF Aktiengesellschaft	24,098	(4.5%)	(2.7%)	266	NA	346.3%	3.0%	1.1%	5.1%
Quanta Services, Inc.	15,474	33.0%	15.0%	1,290	28.4%	34.8%	7.7%	8.3%	9.8%
Skanska AB (publ)	14,891	(14.0%)	(3.7%)	820	(28.3%)	14.8%	5.4%	5.5%	6.6%
EMCOR Group, Inc.	10,462	13.4%	6.9%	633	(0.9%)	13.4%	6.3%	6.0%	6.4%
Balfour Beatty plc	8,633	(15.6%)	(3.5%)	76	(45.6%)	365.4%	1.3%	0.9%	4.2%
MasTec, Inc.	8,470	19.7%	15.8%	717	(22.2%)	21.8%	10.3%	8.5%	8.9%
APi Group Corporation	5,279	45.8%	27.4%	455	51.7%	60.8%	NA	8.6%	10.9%
Tutor Perini Corporation	4,028	(22.8%)	(1.8%)	105	(73.6%)	35.5%	5.2%	2.6%	3.6%
Primoris Services Corporation	3,605	1.8%	39.4%	233	(19.5%)	40.5%	7.2%	6.5%	6.5%
Comfort Systems USA, Inc.	3,593	28.5%	14.4%	283	17.9%	24.8%	8.3%	7.9%	8.6%
Dycom Industries, Inc.	3,464	12.6%	11.6%	296	16.2%	45.6%	9.5%	8.5%	11.1%
Aecon Group Inc.	3,386	9.2%	(1.2%)	60	(47.3%)	210.0%	4.0%	1.8%	5.6%
Granite Construction Incorporated	2,880	(10.3%)	10.3%	98	(41.0%)	162.5%	4.0%	3.4%	8.1%
MYR Group Inc.	2,601	5.8%	13.8%	163	8.0%	16.1%	5.8%	6.3%	6.4%
IES Holdings, Inc.	2,033	47.0%	NA	86	(11.0%)	NA	5.0%	4.2%	NA
Sterling Infrastructure, Inc.	1,786	23.3%	8.1%	169	20.6%	21.1%	7.6%	9.5%	10.6%
Bird Construction Inc.	1,763	14.9%	2.4%	83	6.9%	(6.8%)	2.9%	4.7%	4.3%
Construction Partners, Inc.	1,188	38.7%	18.6%	91	(4.3%)	58.3%	10.3%	7.7%	10.3%
Great Lakes Dredge & Dock Corporation	722	3.9%	NA	121	17.6%	(7.1%)	17.1%	16.8%	NA
Matrix Service Company	682	(1.8%)	15.3%	(52)	NA	NA	0.4%	(7.6%)	1.6%
Orion Group Holdings, Inc.	672	2.0%	4.9%	(1)	NA	NA	2.8%	(0.2%)	5.0%
North American Construction Group Ltd.	537	24.1%	5.4%	126	34.4%	29.0%	22.7%	23.4%	28.6%
Limbach Holdings, Inc.	487	(7.9%)	7.7%	21	25.6%	35.7%	3.0%	4.4%	5.5%
Energy Services of America Corporation	169	32.5%	NA	13	73.8%	NA	5.4%	7.4%	NA
Average	5,038	11.6%	9.7%	256	0.4%	76.1%	6.7%	6.1%	8.0%
Median	3,133	10.9%	8.1%	123	6.9%	35.2%	5.4%	6.2%	6.5%

\$ in millions

Source: Capital IQ, Data as of 9/30/2022

Construction Index Implied Market Multiples – Q3 2021

	Enterprise Value / EBITDA						
Company Name	5-Year Avg.	Q3 2021	Q1 2022	Q3 2022	Q3 2023E	6-Mo. Δ	LTM Δ
HOCHTIEF Aktiengesellschaft	13.2x	NA	34.2x	28.1x	6.3x	(17.9%)	NA
Quanta Services, Inc.	12.9x	19.1x	19.5x	17.5x	13.0x	(9.9%)	(7.9%)
Skanska AB (publ)	10.2x	10.2x	10.9x	7.8x	6.8x	(28.2%)	(23.0%)
EMCOR Group, Inc.	10.1x	11.0x	9.8x	10.5x	9.3x	7.4%	(3.8%)
Balfour Beatty plc	27.6x	24.9x	48.1x	36.5x	7.8x	(24.1%)	46.3%
MasTec, Inc.	8.8x	9.0x	11.4x	10.4x	8.5x	(9.4%)	15.6%
API Group Corporation	NA	22.6x	17.0x	14.3x	8.9x	(16.0%)	(36.9%)
Tutor Perini Corporation	7.6x	4.2x	5.5x	12.9x	9.5x	135.8%	204.5%
Primoris Services Corporation	8.0x	8.0x	7.1x	7.7x	5.5x	7.6%	(4.1%)
Comfort Systems USA, Inc.	12.1x	12.3x	13.7x	14.6x	11.7x	6.8%	19.4%
Dycom Industries, Inc.	10.3x	12.2x	15.6x	12.7x	8.7x	(18.2%)	4.1%
Aecon Group Inc.	12.6x	12.7x	15.8x	15.7x	5.1x	(0.6%)	23.5%
Granite Construction Incorporated	17.3x	14.0x	15.0x	15.9x	6.0x	5.5%	13.5%
MYR Group Inc.	8.3x	11.5x	9.9x	9.5x	8.2x	(3.9%)	(17.6%)
IES Holdings, Inc.	11.2x	11.4x	10.1x	9.0x	NA	(10.4%)	(20.5%)
Sterling Infrastructure, Inc.	7.7x	7.3x	8.0x	7.3x	6.0x	(8.8%)	0.4%
Bird Construction Inc.	18.6x	7.4x	5.8x	4.3x	4.6x	(26.2%)	(42.3%)
Construction Partners, Inc.	14.3x	19.6x	20.0x	19.1x	12.1x	(4.4%)	(2.7%)
Great Lakes Dredge & Dock Corporation	9.7x	13.7x	9.6x	7.8x	8.4x	(19.3%)	(43.2%)
Matrix Service Company	13.0x	NA	NA	NA	11.0x	NA	NA
Orion Group Holdings, Inc.	5.7x	6.1x	NA	NA	4.1x	NA	NA
North American Construction Group Ltd.	5.9x	7.9x	5.9x	4.5x	3.5x	(22.8%)	(43.0%)
Limbach Holdings, Inc.	7.7x	8.0x	5.3x	7.1x	5.2x	33.5%	(11.9%)
Energy Services of America Corporation	4.1x	4.5x	6.4x	5.0x	NA	(22.6%)	9.6%
Average	11.2x	11.7x	13.8x	12.6x	7.7x	(2.1%)	3.8%
Median	10.2x	11.2x	10.5x	10.5x	8.0x	(9.7%)	(3.8%)

Source: Capital IQ as of 9/30/2022

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