

TIGHTENING REGULATORY ENVIRONMENT DRIVES EH&S SECTOR REVENUE AND M&A ACTIVITY

ENVIRONMENTAL, HEALTH & SAFETY SECTOR UPDATE | NOVEMBER 2022



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Environmental, Health & Safety

Tightening Regulatory Environment Drives Sector Revenue and M&A Activity

KEY SECTOR TAKEAWAYS

Capstone Partners' [Industrials Group](#) is pleased to share its Environmental, Health & Safety (EH&S) report. The EH&S sector is poised to benefit from significant tailwinds including elevated corporate profits, healthy construction and production activity, and an increasingly stringent regulatory environment. Amid robust tailwinds, merger and acquisition (M&A) activity in the EH&S sector has continued to surge with transactions announced or closed year-to-date (YTD) slightly outpacing the same period in 2021, a record year for EH&S deals. Several key report takeaways are outlined below.

1. Sector players that specialize in environmental consulting have witnessed higher service demand amid growing environmental concerns.
2. In congruence with tightening environmental regulations, the complexity of workplace safety laws has increased, supporting companies in the Occupational Health & Safety segment.
3. High-risk industries are expected to supplement demand in the Occupational Health & Safety segment as companies operating in hazardous spaces outsource to resolve workplace issues.
4. Strategic buyers have accounted for a majority of acquisitions YTD (52.7%), leveraging M&A to add coverage areas, expand technological capabilities, and bolster their regional footprint.
5. Private equity (PE) has continued to demonstrate an appetite for EH&S assets, completing add-on deals to scale platform companies.
6. Capstone expects EH&S M&A activity to continue at a strong pace as strategics and PE firms bolster market share to capitalize on sector tailwinds.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.

To learn more about Capstone's wide range of advisory services and Environmental, Health & Safety sector knowledge, please contact Managing Director and Co-Head of Industrials Investment Banking [David Bench](#).

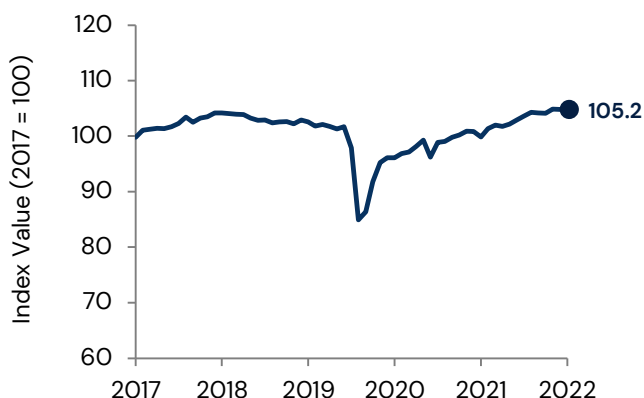
EH&S CONSULTANTS POISED FOR REVENUE GROWTH

The EH&S sector is poised to benefit from significant tailwinds including elevated corporate profits, healthy construction and production activity, and an increasingly stringent regulatory environment. In addition, with corporate profits reaching \$3.0 trillion in Q2 2022, an increase of 7.7% year-over-year (YOY) (U.S. Bureau of Economic Analysis),¹ companies are expected to invest in environmental consulting services to bolster the viability and sustainability of long-term growth. Sector players that specialize in environmental consulting have witnessed higher service demand amid growing government and private sector investment in environmental initiatives. Driven by heightened scrutiny surrounding corporations' environmental goals, environmental consultants are forecast to attract strong demand, providing services that optimize clients' sustainability initiatives. Similarly, manufacturers and builders are expected to utilize sector services to meet environmental requirements as production and construction activity remain elevated.

The complexity of laws surrounding workplace safety has continued to increase, supporting sector players in the Occupational Health & Safety segment. The Occupational Safety and Health Administration (OSHA) has continued to implement laws to protect employees resulting in more worksite evaluations, compliance audits, hazard assessments, facility-design reviews, indoor air quality evaluations, and training programs, according to IBISWorld.² These regulations have bolstered the number of companies demanding health and safety consulting services to avoid government penalties. Businesses and government entities that outsource initiatives to occupational health and workplace safety providers benefit from the specialization and lower-cost profile of sector players as opposed to maintaining a team of consultants in-house.

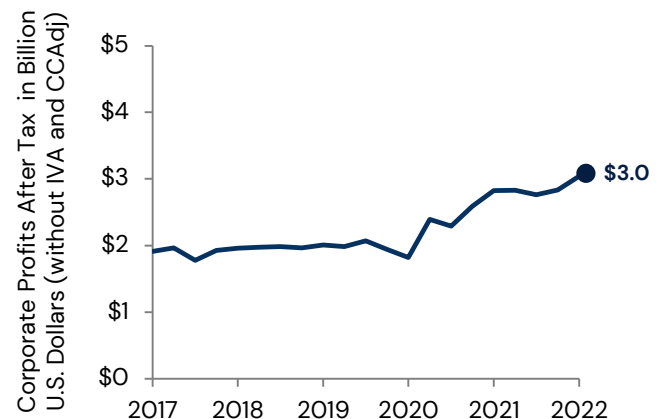
High-risk industries, including Manufacturing and Construction, are expected to supplement demand in the Occupational Health & Safety segment as companies operating in hazardous spaces have substantial room for improvement in safety measures. Markedly, an estimated 340 workers died each day in 2020 due to hazardous work environments, according to The American Federation of Labor and Congress of Industrial Organizations.³ Standardization of core EH&S business processes to connect the frontline workforce, create an EH&S system of record, converge EH&S and operations, and leverage data analytics for predictive risk management could significantly improve conditions in high-risk spaces, according to a report by LNS Research.⁴ "Our research shows that while high-risk industries are advanced in some aspects of EHS management, they also have significant opportunities to take advantage of new approaches, best practices, and technologies to improve performance. There are real opportunities for these industries to leverage ongoing Industrial Transformation initiatives to drive EHS and operational performance improvement," said Peter Bussey, Principal Analyst at LNS Research, in the report. Heightened attention on workforce safety and sustainability is expected to create significant revenue opportunities for EH&S sector players.

Industrial Production Index Surpasses Pre-Pandemic Levels



Source: Board of Governors of the Federal Reserve System

Corporate Profits Reach Record Levels Despite Macroeconomic Headwinds



Source: Bureau of Economic Analysis



STRATEGICS LEAD SURGE IN M&A ACTIVITY

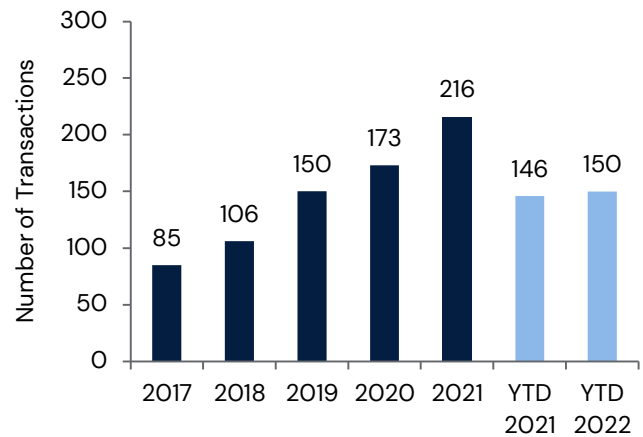
M&A volume in the EH&S sector has been undeterred by an uncertain economic and dealmaking environment, rising 2.7% YOY to 150 deals. The sector has emerged as one of the few spaces outperforming 2021 deal count, which was a record year for middle market deal activity. The proliferation of transaction volume in the EH&S space has occurred despite total middle market M&A activity declining 9.2% YOY through Q3, according to Capstone Partners.

Strategic buyers accounted for a slight majority of acquisitions YTD, comprising 52.7% of transactions. Sector players have leveraged M&A to add coverage areas, expand technological capabilities, and bolster their regional footprint. For example, Hexagon (OM:HEXA B), a provider of autonomous solutions for environmental challenges, acquired ETQ in February (undisclosed). ETQ is a provider of EH&S software that possesses data management capabilities making quality data fully actionable.

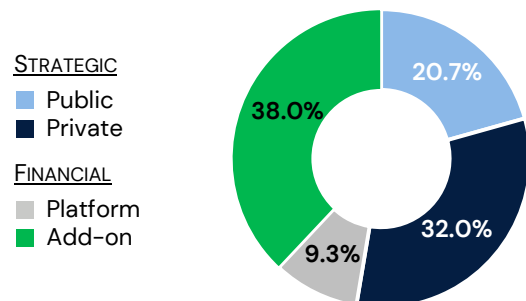
Financial buyers have also remained active, driven by PE-backed companies completing add-on deals (38% of YTD deals announced or closed). In a recent example, Verdantas, a portfolio company of RTC Partners, acquired Environmental Strategies & Management (ES&M) in September, strengthening its environmental-related service offerings. Terms of the deal were not disclosed.

Capstone expects EH&S M&A to continue at a strong pace as strategics and PE firms bolster market share to capitalize on sector tailwinds.

Transaction Activity Continues to Surge



PE Add-on Deals Account for Major Share of Acquisitions



Note: Year-to-date (YTD) ended September 16
Source: Capital IQ, PitchBook, FactSet, and Capstone Partners



David Bench
Managing Director,
Co-Head of Industrials Investment Banking

"Company and government initiatives towards protecting the worker and environment continue to play a major role in corporate planning and investment. Although the macro environment has weakened in the second half of 2022, this inherent demand for EH&S products and services has driven steady M&A interest for companies in the space, in particular a growing number of ESG-focused private equity firms and dedicated investment funds."



NOTABLE TRANSACTIONS

Audax Group

To Acquire



Private equity firm Audax Group acquired DISA Global Solutions from Court Square Capital Partners in September for an undisclosed sum. DISA is a provider of employee screening, compliance, and workplace health and safety solutions. The company differentiates itself through its use of a proprietary consortium model, speed and quality of services, direct-lab network, and its technology database and customer platforms, according to a press release.⁵ DISA remains focused on continued growth through add-on acquisitions to expand its geographic footprint, increase its end market exposure, and bolster its core existing service portfolio.

"We are excited to work with John [John Peterson, CEO of DISA] and the management team at DISA. Under their leadership, the company has differentiated itself in a large and highly fragmented market by establishing a broad portfolio of comprehensive and best-in-class solutions. These solutions are critical in helping DISA's customers deliver a safer workplace for both their employees and the environment. We look forward to leveraging our prior experience and working with John and the rest of the management team's leadership to drive growth both organically and through strategic M&A," said Young Lee, Managing Director at Audax Private Equity, in the press release.



Acquires



Consulting and digital services provider ICF (Nasdaq:ICFI) acquired Blanton & Associates in September 2022 for an undisclosed sum. Blanton & Associates provides environmental consulting, planning, and project management services. The company also possesses significant renewable energy experience, having supported more than 500 solar and wind energy projects in over 30 states and completed more than half of all of Texas' wind energy projects by megawatt and nearly 20% of all U.S. land-based wind capacity by megawatt, according to a press release.⁶

"As one team, ICF and Blanton & Associates will offer industry-leading expertise in the Transportation, Energy, and Water sectors coupled with a deep understanding of environmental regulations to help state and local agencies quickly execute infrastructure projects, while protecting the environment and maintaining compliance. Our strong cultural alignment is reflected in our mutual passion for protecting natural resources, promoting clean energy and building infrastructure resilience," said John Wasson, ICF CEO, in the press release.



Acquires



Private equity firm Peak Rock Capital acquired The Tranzonic Companies in August for an undisclosed sum. Tranzonic manufactures and provides cleaning, hygiene, and personal protection products to a variety of end markets including Healthcare, Foodservice, and Facility Services. In addition to its suite of branded consumable products, the company also provides value-added services and capabilities. Tranzonic is headquartered in Cleveland, Ohio and operates a network of 16 facilities.

"Tranzonic represents an exciting opportunity to invest in a growing supplier of consumable cleaning and hygiene products with a strong leadership position in the personal hygiene, away-from-home, and controlled environments categories. We are impressed with the strong track record of growth the Tranzonic team has achieved and look forward to partnering with the company to accelerate growth, while executing complementary acquisitions that extend Tranzonic's capabilities, product offerings, and geographic coverage," said Jordan Campbell, Managing Director at Peak Rock Capital, in a press release.⁷



SELECT EH&S TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
09/12/22	DISA Global Solutions	Audax Management Company	Offers workplace safety and compliance services to safety-sensitive employers worldwide.	-	-	-
09/08/22	Cushing Systems	N. Harris Computer	Develops a full line of software solutions specifically for law enforcement, fire, and public safety agencies	-	-	-
09/07/22	ES&M	Verdantas	Provides environmental consulting, health and safety, and engineering services.	-	-	-
09/01/22	Blanton & Associates	ICF International (Nasdaq:ICFI)	Provides environmental consulting, planning, and project management services.	-	-	-
08/16/22	The Tranzonic Companies	Peak Rock Capital	Manufactures and distributes cleaning, maintenance, absorbents, and personal protection products.	-	-	-
07/01/22	PennWest Industrial Trucks	Toyota Material Handling	Provides tools and services to help customers improve processes, customer service and workplace safety.	-	-	-
06/30/22	Patriot Environmental	Heritage-Crystal Clean	Provides environmental services in the Western U.S.	\$156.0	-	-
06/27/22	Telephonics	TTM Technologies (Nasdaq:TTMI)	Manufactures audio headsets for military personnel and civilians worldwide.	\$330.0	-	-
06/09/22	Machine Safety Specialists	Clarion Safety Systems	Provides machine safety consulting services.	-	-	-
06/06/22	Harness Software USA	Foundation Software	Develops construction safety software to manage health and safety programs.	-	-	-
05/05/22	Bowfin Environmental Consulting	CIMA +	Provides terrestrial and aquatic environmental consulting services for the Private and Public sectors.	-	-	-
04/08/22	Hunter Leasing	Crossplane Capital	Provides safety-critical blast-resistant building (BRB) rental services for petrochemical companies.	-	-	-
03/31/22	Crocker Fire Drill Corporation	Altus Fire and Life Safety	Provides full-service fire and life safety consulting services.	-	-	-
02/25/22	ETQ	Hexagon (OM:HEXA B)	Develops EHS and compliance management software.	\$1,200.0	-	-
02/16/22	ESS Group	TRC Companies	Provides environmental consulting and engineering services.	-	-	-
02/15/22	RxToolKit	WeInfuse	Develops clinical and safety education tool solutions for medication preparation and administration.	-	-	-
02/09/22	US Ecology (Nasdaq:ECOL)	Republic Services (NYSE:RSG)	Provides environmental services to commercial and government entities.	\$2,263.8	2.3x	13.6x
02/07/22	First Alert	Resideo (NYSE:REZI)	Develops innovative safety solutions.	\$620.0	1.6x	11.3x
01/27/22	Versatile Systems	Diversified Fall Protection	Provides building fall protection products, installations, training, and rentals.	-	-	-
01/24/22	3E	New Mountain Capital	Provides EHS compliance and information management services.	\$950.0	-	-
01/05/22	Safety Consulting	World Insurance Associates	Offers loss control, risk management, safety training, site inspections, and safety supply equipment.	-	-	-
01/04/22	Watterson Environmental Group	Highview Capital	Provides emergency response, environmental consulting, and facilities maintenance.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

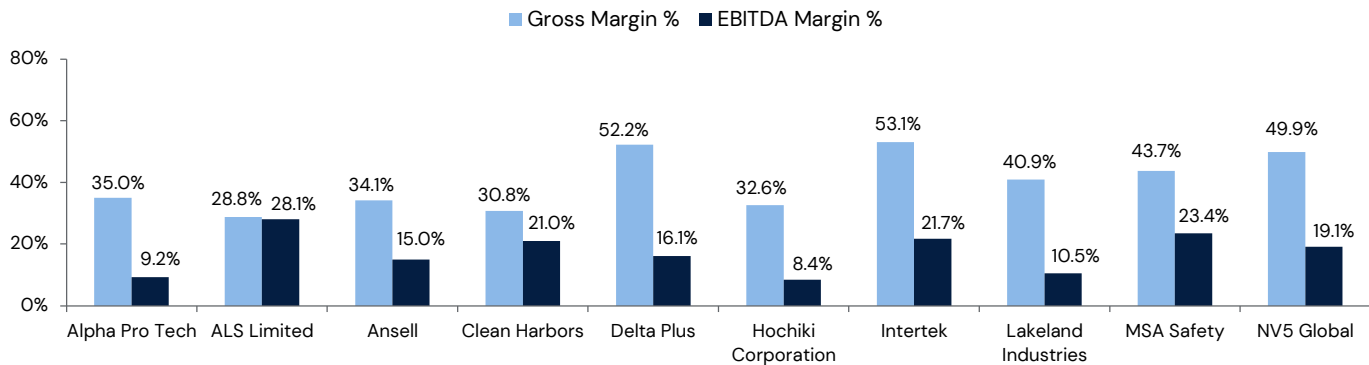


PUBLIC COMPANY DATA

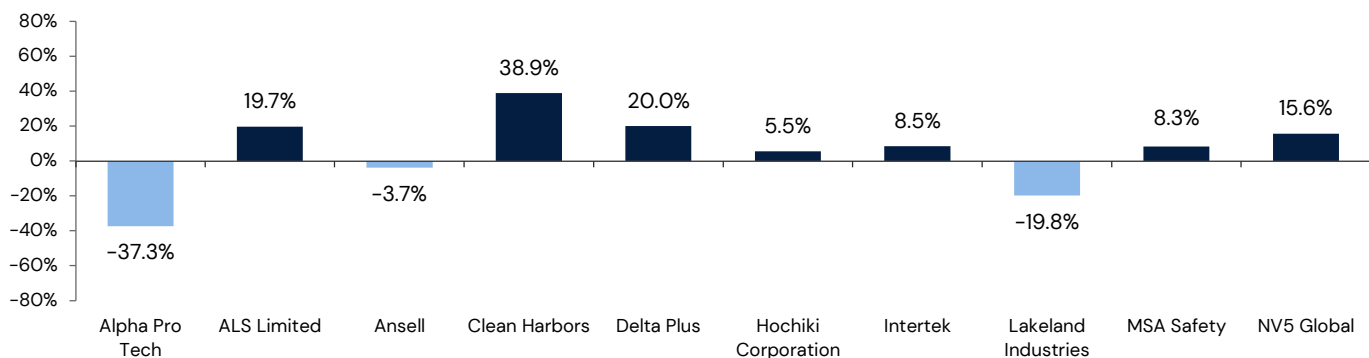
Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	10/19/22	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Alpha Pro Tech, Ltd.	\$4.12	49.7%	\$52.5	\$39.4	\$62.7	\$5.8	9.2%	0.6x	6.8x
ALS Limited	\$7.05	79.4%	\$3,413.0	\$4,119.5	\$1,581.9	\$443.8	28.1%	2.6x	9.3x
Ansell Limited	\$17.01	78.6%	\$2,139.0	\$2,406.2	\$1,952.1	\$292.6	15.0%	1.2x	8.2x
Clean Harbors, Inc.	\$117.45	94.3%	\$6,354.4	\$8,707.1	\$4,596.4	\$965.1	21.0%	1.9x	9.0x
Delta Plus Group	\$55.66	55.9%	\$398.5	\$592.6	\$399.6	\$64.4	16.1%	1.5x	9.2x
Hochiki Corporation	\$9.77	99.8%	\$244.7	\$134.3	\$606.2	\$51.1	8.4%	0.2x	2.6x
Intertek Group plc	\$41.88	63.9%	\$6,747.7	\$8,128.8	\$3,597.3	\$782.1	21.7%	2.3x	10.4x
Lakeland Industries, Inc.	\$11.35	51.1%	\$85.3	\$48.5	\$112.3	\$11.7	10.5%	0.4x	4.1x
MSA Safety Incorporated	\$116.91	74.3%	\$4,574.2	\$5,069.7	\$1,453.5	\$340.2	23.4%	3.5x	14.9x
NV5 Global, Inc.	\$130.54	88.6%	\$2,029.7	\$2,120.6	\$767.0	\$146.5	19.1%	2.8x	14.5x
Mean							17.3%	1.7x	8.9x
Median							17.6%	1.7x	9.1x
Harmonic Mean							14.8%	0.8x	6.9x

EV = enterprise value; LTM = last twelve months
\$ in millions, except per share data
NM = Not Meaningful

Last Twelve Month Margin Performance



Last Twelve Month Revenue Growth



Source: Capital IQ as of October 19, 2022



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David is a Managing Director based out of Orange County, CA. Prior to Capstone Partners, David managed the Western region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. David has focused on middle market investment banking for 30+ years and has been the lead banker in over 250 M&A transactions involving both domestic and foreign corporate buyers, as well as leveraged recaps with private equity sponsors. His areas of focus include manufacturing and industrials (products and services) and business services. His achievements in the investment banking industry have gained him national recognition by the M&A Advisor.

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Tracy is a Director in the Orange County office. She possesses 17 years of experience in middle market investment banking, working on both domestic and cross-border transactions, focusing on the Personal Care industry and other Manufacturing and Industrial targets. Prior to Capstone Partners, Tracy worked as a senior banking professional in Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. She also worked in the hedge fund industry with Collins/Bay Island Securities LLC and Talisman Capital. Prior to that, Tracy worked with institutional fixed income sales at both Vining Sparks IBG, LP and Robert Thomas Securities, Inc. She also enjoyed tenure in management at The Disney Company.

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FIRM TRACK RECORD

Capstone Partners maintains an active Industrials practice in the middle market, with Environmental, Health & Safety being an important vertical within our focus. This market presence allows Capstone Partners to provide Environmental, Health & Safety companies with experienced, up-to-date market data and access to key decision makers among the industry's most active acquirers and investors.





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