

DEMAND FOR OUTSOURCED SERVICES SUPPORTS ENVIRONMENTAL HEALTH AND SAFETY MARKET

ENVIRONMENTAL HEALTH & SAFETY SECTOR UPDATE | JULY 2024



**CAPSTONE
PARTNERS**

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Environmental Health & Safety

Demand For Outsourced Services Supports Environmental Health and Safety Market

KEY SECTOR TAKEAWAYS

Capstone Partners' [Industrials Group](#) is pleased to share its Environmental Health & Safety (EHS) report. The EHS space has continued to witness strong demand, particularly as businesses outsource comprehensive safety management services to meet evolving regulations and implement best practices for environmental stewardship and workplace safety. Despite a decrease in merger and acquisition (M&A) activity year-over-year (YOY), Capstone is seeing continued demand from strategics and private equity groups for EHS companies. Several additional key report takeaways are outlined below.

1. M&A volume in the EHS market has moderated through year-to-date (YTD) with 49 transactions announced or completed. Capstone forecasts YTD levels to be a trough after 2023 saw activity in the space outperform broader markets.
2. Rapid urbanization and industrialization, coupled with government investments for the development of numerous semiconductor and data center projects, are expected to drive future demand for EHS.
3. Public players in the sector have demonstrated significant commitments to help tackle artificial intelligence (AI) and data center demand.
4. Despite resilience in Construction market verticals, labor shortages have persisted, with April's report reaching 8.1 million job openings in the U.S., according to the Bureau of Labor Statistics (BLS).¹
5. Private equity activity has held up through YTD as dealmakers have been fielding inquiries from private equity firms seeking to establish or enhance sector portfolios.
6. Despite a challenging overall M&A environment, we continue to witness strong demand for EHS companies, particularly in sectors that are benefiting from the longer-term tailwinds of reshoring/onshoring, outsourced services, and increasing EHS regulations and reporting.

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 us](#).

CONSTRUCTION RESILIENCE IN KEY MARKETS SUPPORTS EHS DEMAND

The EHS sector has seen increased demand as businesses continue to outsource comprehensive safety management services to enhance workplace safety on construction-related projects. In-house EHS staff typically focus on corporate safety matters and do not have the onsite expertise or resources. Rapid urbanization and industrialization, coupled with government investments in the development of numerous semiconductor and data center projects, are expected to drive future demand for EHS outsourcing. The Dodge Momentum Index (DMI), a monthly measure of the value of nonresidential building projects going into planning, has led construction spending for nonresidential buildings by a full year, according to the Dodge Construction Network.² In May 2024, the overall DMI rose 2.7% while the Commercial and Institutional components of the DMI rose 2.7% and fell 3.4%, respectively. “Outsized demand to build Cloud and AI infrastructure is supporting above-average activity in the sector,” stated Sarah Martin, Associate Director at the Dodge Construction Network, in April’s DMI release.³

One of the largest e-commerce and technology companies in the world, Amazon (Nasdaq:AMZN), has placed significant emphasis on workplace safety. With approximately 1.1 million employees across six continents and over 9,000 dedicated safety professionals, Amazon has invested more than \$1 billion into safety since 2019, according to a report from Amazon.⁴ In 2024, Amazon expects to invest \$750 million for process engineering and retrofit initiatives that further improve ergonomics, additional fork truck safety controls, on-the-road safety enhancements, and truck yard safety improvements. Amazon has also deployed robotics to help make operations safer by reducing employees’ workload.

Despite resilience in Construction market verticals, labor shortages have persisted, a headwind for sector growth. In April, there were 8.1 million job openings in the U.S. but only 6.5 million unemployed workers, according to the BLS. Additionally, the labor force participation rate was 62.5% in May, down from 63.3% in February 2020, partially attributable to an aging workforce and early retirements. Moreover, net international migration to the U.S. fell 76% between 2016 and 2021, its lowest level in decades, according to BLS and the U.S. Census Bureau.^{5,6}

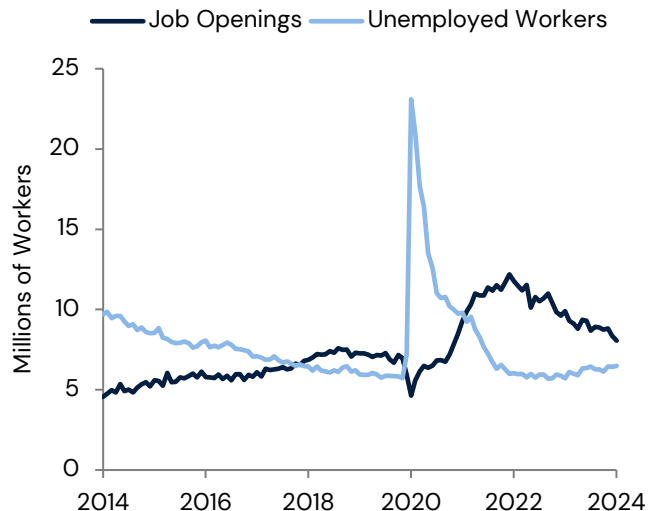


Chris Cardinale
Director

“The strength in the U.S. Construction market for industrial environments is fueling meaningful activity in EHS, driven by strong tailwinds in the reshoring/onshoring efforts and continued investment in data centers. These long-term demand drivers are catching the attention of the M&A market and increasing the interest in EHS companies.”

Outsourcing has become a panacea for increased construction demand amid difficult labor shortages. EHS sector players have utilized outsourcing to gain access to specialized expertise and advanced technologies that might otherwise be cost-prohibitive. Companies have leveraged the knowledge of external EHS professionals to ensure compliance with evolving regulations and implement best practices for environmental stewardship and workplace safety. By focusing on core business activities and delegating EHS responsibilities to experts, companies can achieve a higher standard of EHS performance.

National Job Openings vs. Number of Unemployed Workers

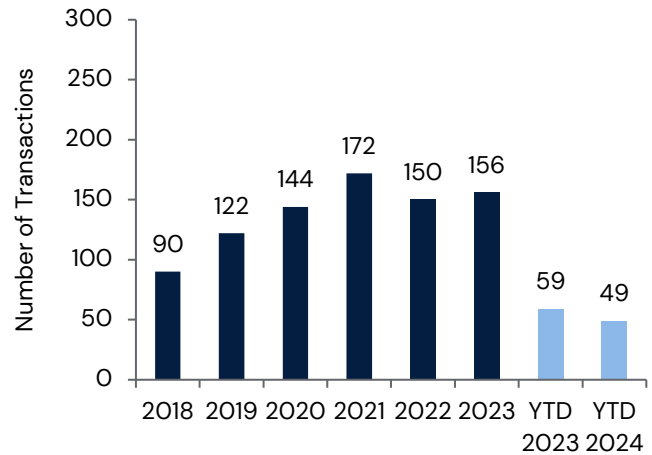


Source: U.S. Bureau of Labor Statistics and Capstone Partners

SERVICES SEGMENT A BRIGHT SPOT AS TRANSACTION ACTIVITY SLOWS

M&A volume in the EHS sector has moderated through YTD with 49 transactions announced or completed. Capstone expects YTD levels to be a trough after 2023 witnessed activity in the space outperform broader markets and notch a 4% gain YOY from 2022 to 2023. Target companies in the Services segment have comprised the largest percentage of transactions (57.1%) as sector participants adjust to increasing regulations, and outsourcing trends provide tailwinds for deal activity. Despite construction and outsourcing tailwinds encouraging sector players to transact, higher borrowing costs and the interest rate environment have hindered activity. Public strategics have dominated M&A activity, comprising 32.7% of deal activity YTD, doubling deal volume from the prior year period. Private strategics have accounted for the largest decrease with 13 deals announced or completed to-date compared to 29 in the prior year period.

Environmental Health & Safety Transaction Volume Slows



Year-to-date (YTD) June 7

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

Private equity activity has held up through YTD as dealmakers have fielded inquiries from private equity firms seeking to establish or enhance sector portfolios. Private equity platform deals rose by two deals YOY meanwhile add-ons fell 22.2% (four deals). Notably, Morgan Stanley Capital Partners (MSCP)-backed Alliance Technical, a leader in environmental testing and compliance services, acquired RSB Solutions, a Houston-based environmental compliance and consulting firm for an undisclosed sum (May). The transaction marks Alliance’s ninth acquisition since it was acquired by MSCP (July 2021, undisclosed). RSB provides broad-scale solutions, including its Comprehensive Health, Environmental, Safety System (C.H.E.S.S.) offering, which is expected to be accretive to Alliance’s portfolio of compliance services.

Environmental Health & Safety Valuation Analysis

Valuation Method	Average Revenue Multiple	Average EBITDA Multiple
Historic M&A Transactions (2018–YTD)	2.2x	10.9x
Public Company Trading Multiples (LTM)	2.1x	11.4x

Year-to-date (YTD) ended June 7; LTM=Last twelve months; Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Defensible gross margins and a high degree of revenue visibility have contributed to robust M&A pricing in the EHS sector. M&A multiples in the space have averaged 2.2x EV/Revenue and 10.9x EV/EBITDA from 2018 through YTD 2024, outperforming public strategics in Capstone’s EHS index on a revenue basis. The M&A transaction average of 10.9x EV/EBITDA and the elevated 11.4x EV/EBITDA multiple for public strategics can be attributed to economies of scale and efficiencies. Capstone expects deal activity to rebound through year-end and into 2025 as private strategics return to the market in conjunction with elevated public player appetite. Private equity is expected to target sector players and with elevated cash, benefitting from forecasted interest rate cuts by year-end or early 2025. The current valuation environment has fared well for prospective sellers as competition among buyers is projected to remain high.



SELECT ENVIRONMENTAL HEALTH AND SAFETY M&A TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	Revenue	EV/LTM EBITDA
06/24/24	Safe T Professionals	Gallagher Bassett Services	Offers construction-related safety management.	CF	CF	CF
06/07/24	Amerisafe	Onpoint Industrial Services	Provides safety consulting and occupational health services.	-	-	-
06/03/24	EnGlobe	Colliers (TSX:CIGI)	Offers soil, materials, and environmental engineering services.	-	-	-
05/29/24	RSB Solutions	Alliance Technical	Operates as an environmental consulting firm.	-	-	-
05/20/24	TMCADD Consulting	NV5 Global (Nasdaq:NVEE)	Provides building information modeling, reality capture, and digital twin solutions.	-	-	-
04/23/24	Environmental Technology	EIS Holdings	Offers environmental consulting services.	-	-	-
04/12/24	Triton Environmental	True Environmental	Provides environmental consulting and engineering services.	-	-	-
04/08/24	PPE business of Kimberly-Clark	Ansell (ASX:ANN)	Comprises personal care and consumer tissue product manufacturing business.	\$640.0	2.4x	9.7x
04/04/24	GIS Solutions	NV5 Global (Nasdaq:NVEE)	Operates as an EHS application software company.	-	-	-
04/03/24	Forklift Training Systems	Fleet Team	Offers forklift training and safety products.	-	-	-
03/25/24	YORK Analytical Laboratories	ALS (ASX:ALQ)	Provides analysis of environmental samples.	\$146.3	6.4x	-
03/25/24	FTN Associates	Olsson	Offers water resource and environmental consulting services.	-	-	-
03/21/24	PBS Engineering & Environmental	Apex Companies	Provides engineering and environmental consulting services.	-	-	-
03/12/24	Sundance Consultants	True Environmental	Offers environmental consulting services.	-	-	-
03/04/24	McCarthy Consultant	Dell Tech Laboratories	Provides regulatory management services.	-	-	-
02/20/24	Alpha Safety	Safariland	Manufactures radiation protection and safety products.	\$106.5	2.4x	-
02/16/24	SEAM Group	ABB (SWX:ABBN)	Operates as an electrical safety training company.	-	-	-
02/07/24	HHNF Business of Berry	Glatfelter (NYSE:GLT)	Comprises Health & Hygiene business.	\$1,000.0	0.5x	3.4x
02/05/24	Everbridge (Nasdaq:EVBG)	Thoma Bravo	Operates as a critical events software company.	\$1,517.3	3.4x	NM
02/02/24	HEPACO	Clean Harbors (NYSE:CLH)	Provides environmental and emergency services.	\$400.0	1.5x	11.1x
02/01/24	Fusus	Axon Enterprise (Nasdaq:AXON)	Develops a platform that integrates all public safety and investigation assets.	\$302.8	-	-
02/01/24	XCG Consulting	Trace Associates	Offers environmental consulting services.	-	-	-
01/22/24	Emergent Safety Supply	Lawson Products	Sell safety products.	-	-	-

Blue indicates Capstone advised transactions; CF = Confidential
Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

DIVESTITURES AND PUBLIC STRATEGICS SHAPE NOTABLE TRANSACTIONS



Acquires



Australia-based Ansell (ASX:ANN) acquired Kimberly-Clark's (NYSE:KMB) Personal Protective Equipment business (KCPPE) in April for \$640 million, equivalent to 2.4x EV/Revenue and 9.7x EV/EBITDA. KCPPE sells differentiated hand, body, and eye protection products under the well-known Kimtech™ and KleenGuard™ brands to customers in the Scientific and Industrial segments.

The acquisition strengthens Ansell's end-user presence in North America and is in line with its growth strategy to enhance global positioning in attractive and growing segments, including Scientific, where Ansell's differentiation is highly valued. Additionally, through the transaction Ansell is expected to improve its product lifecycle sustainability differentiation as it adds KCPPE's The RightCycle™ Program product recycling service, the leading alternative to land-fill disposal.



Acquires



In February, Cadre Holdings (NYSE:CDRE)-backed Safariland® acquired Alpha Safety, a leading nuclear safety solutions company for \$106.5 million, equivalent to 2.4x EV/Revenue. Cadre is a global leader in the manufacturing and distribution of safety equipment, providing critical protection to users in hazardous or life-threatening situations. Alpha Safety has more than 40 years of relationships with key Environmental Safety, National Security, and Nuclear Energy sector clients, who rely upon the company's proprietary products and services to protect critical operational personnel and the environment. Additionally, Alpha Safety has maintained a protected market position due to the technical nature of its products, with 29 patents, strict regulation and compliance protocols, and significant intellectual property (IP) moats, according to a press release.⁷

"Based on complex and evolving industry needs and macro tailwinds, nuclear safety presents an opportunity for consistent organic growth and the ability to augment that growth through selected acquisitions," commented Cadre Chairman & CEO, Warren B. Kanders, in the deal press release.



To Merge With



Glatfelter (NYSE:GLT) and Berry Global (NYSE:BERY) have announced an agreement for Berry to spin-off and merge its Health, Hygiene, & Specialties segment with Glatfelter (February). The merger will include Berry's Global Nonwovens and Films business (HHNF), with an aim to create a leading, publicly-traded company in the Specialty Materials space. Berry is expected to receive net cash proceeds of approximately \$1 billion at close with the acquired business reporting revenues of \$2.2 billion and EBITDA of \$290 million for the year ended December 31, 2023, according to a press release.⁸ The transaction scales resources to drive innovation and leverage research and development across a large, global franchise and is projected to generate cost synergies of \$50 million by the third year following closing.

"The uniting of our organizations creates a premier nonwovens supplier and a global leader in specialty materials, with the talent, technologies, scale, and footprint to deliver commercial and operational excellence, and a wide range of solutions for our customers. Our combined company is scaled to accelerate innovation and leverage our intellectual property over a large worldwide commercial platform and is well positioned to deliver substantial shareholder value," said Thomas Fahnemann, Glatfelter's President and CEO, in the press release.

CAPSTONE ADVISES SAFE T PROFESSIONALS ON STRATEGIC INVESTMENT

Capstone Partners advised Safe T Professionals—a construction-related safety management consulting firm—on its investment from Gallagher Bassett Services in June 2024 (terms confidential).

Founded in 2011 and based in Chandler, Arizona, Safe T Professionals is a leader in safety consulting and manager outsourcing. The company provides safety training, oversight, reporting, and management of all third-party contractors to assist in large-scale construction projects, ongoing maintenance, and repairs at industrial facilities. Safe T Professionals has developed a specialty in the Semiconductor and Electric Vehicle (EV) industries and represents some of these industries' largest global companies.

Anna Martinez, Safe T Professionals' CEO, said, "In addition to their focus on mitigating and managing risk, Gallagher Bassett is well-positioned to help us accelerate our plans for broadening our service offerings and expanding geographically to meet the growing needs of the Construction industry."

Joshua Martinez, Chief Operations Officer (COO) of Safe T Professionals, commented, "Prior to engaging Capstone Partners, we had two unsolicited offers that did not end up working out. Capstone Partners came highly recommended by a trusted advisor and they more than delivered. Their EHS team quickly understood the needs of the company and shareholders and introduced us to a variety of potential partners and guided us through all the details of the exciting partnership with Gallagher Bassett. Capstone's EHS expertise and relationships were a tremendous advantage, and we are thrilled with the outcome and service provided by Capstone Partners."



“ Thanks to Capstone Partners we have successfully found a partner in Gallagher Bassett to help us achieve our goal of growing and expanding our services in the construction industry. It was critical that we partner with a company that aligns with our values and vision. Josh and I feel optimistic about the success of this partnership. It’s a blessing to feel at ease with our collaboration with Gallagher Bassett and we are looking forward to our journey in succeeding and achieving our business objectives. ”

Anna Martinez
CEO, Safe T Professionals



David Bench
Managing Director

“This is the second client providing outsourced safety management that Capstone Partners has advised in the past year. We are witnessing intense interest in safety consulting/management companies from ancillary sectors including risk management, safety equipment rental/turnaround services, safety products distribution, and janitorial/sanitation products and services. This interest reflects the mission-critical nature these services represent as a jumping off point for related products and services.”

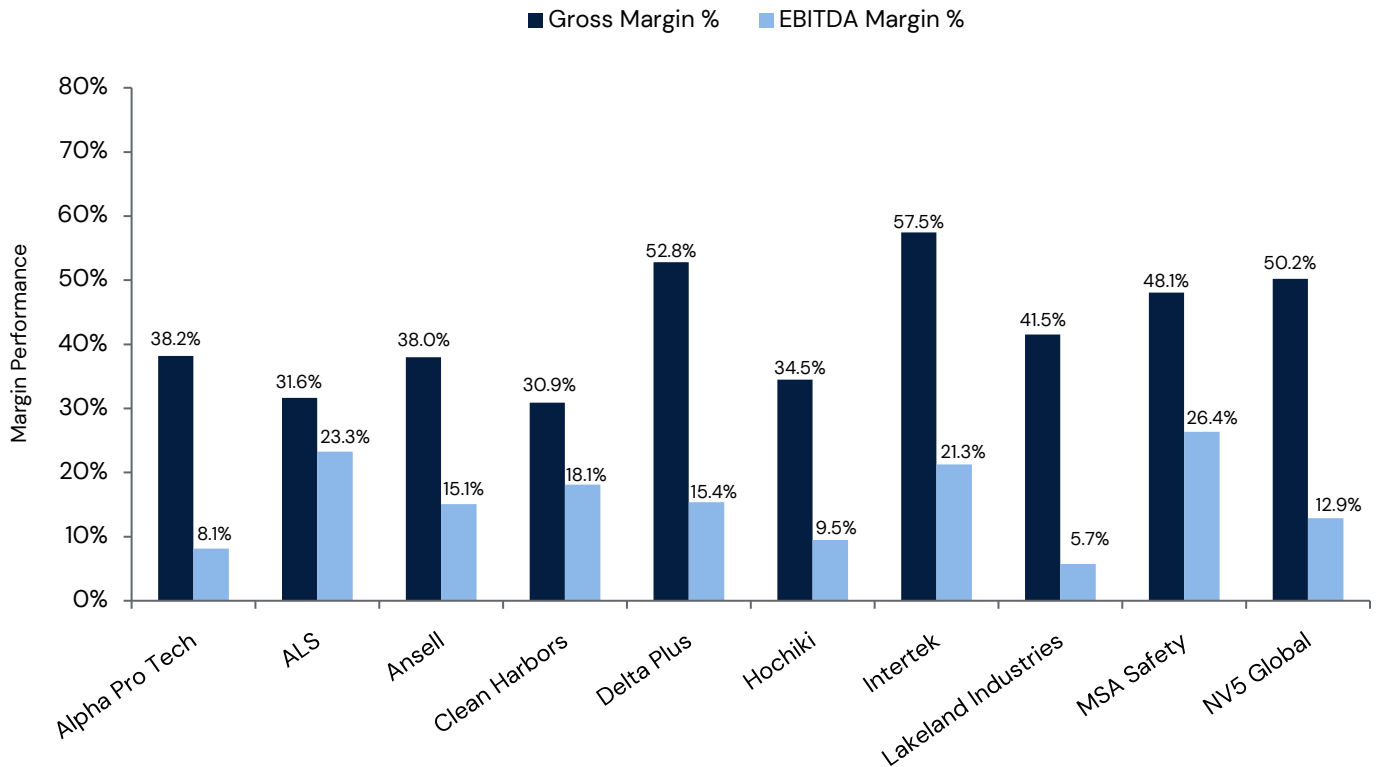
PUBLIC COMPANY DATA

Company	Price 06/28/24	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Alpha Pro Tech, Ltd.	\$5.50	79.5%	\$64.3	\$55.2	\$60.9	\$5.0	8.1%	0.9x	11.1x
ALS Limited	\$9.35	95.0%	\$4,525.1	\$5,583.2	\$1,605.2	\$573.3	35.7%	3.5x	9.7x
Ansell Limited	\$17.71	95.1%	\$2,562.8	\$2,910.5	\$1,604.7	\$241.8	15.1%	1.8x	12.0x
Clean Harbors, Inc.	\$226.15	97.8%	\$12,197.4	\$14,884.0	\$5,478.5	\$1,239.3	22.6%	2.7x	12.0x
Delta Plus Group	\$75.43	81.1%	\$540.3	\$707.6	\$464.9	\$79.7	17.1%	1.5x	8.9x
Hochiki Corporation	\$13.93	88.1%	\$345.3	\$281.2	\$618.1	\$58.7	9.5%	0.5x	4.8x
Intertek Group plc	\$60.59	93.2%	\$9,769.1	\$10,976.2	\$4,240.0	\$901.9	21.3%	2.6x	12.2x
Lakeland Industries, Inc.	\$22.94	92.5%	\$169.2	\$166.2	\$132.3	\$10.0	7.5%	1.3x	16.7x
MSA Safety Incorporated	\$187.69	95.8%	\$7,391.7	\$7,888.2	\$1,802.7	\$486.7	27.0%	4.4x	16.2x
NV5 Global, Inc.	\$92.97	80.8%	\$1,501.1	\$1,745.0	\$890.7	\$138.4	15.5%	2.0x	12.6x

Mean	18.0%	2.1x	11.6x
Median	16.3%	1.9x	12.0x
Harmonic Mean	14.2%	1.4x	10.4x

EV = enterprise value; LTM = last twelve months
\$ in millions, except per share data

Last Twelve-Month Margin Performance



Source: Capital IQ and Capstone Partners as of June 28, 2024

BUYER UNIVERSE

Capstone maintains an active presence in the Environmental Health & Safety sector with in-depth knowledge of the buyer universe and business characteristics that drive premium valuations in an M&A process. Our sector knowledge and network provide us with unique insights into market trends and buyer preferences.

Leading Strategic Buyers



Leading Financial Buyers



Source: Capstone Partners

ENVIRONMENTAL HEALTH & SAFETY REPORT CONTRIBUTORS



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Chris is a Director within Capstone’s Industrials Investment Banking Group with over 10 years of experience serving clients on transactions involving mergers, acquisitions, carveouts, divestitures, recapitalizations and capital raises. Based in Orange County, CA, he supports management and clients throughout the U.S. Chris’ industry experience includes Environmental, Health & Safety, Facilities Services, Packaging, Precision Manufacturing, Chemicals and Industrial Distribution.



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FIRM TRACK RECORD

Capstone Partners' Industrials professionals have represented clients across various EHS end-market specialties. This focus allows Capstone Partners to provide environmental and workplace safety clients with real-time transaction feedback and immediate access to key decision makers among the industry's most active acquirers and investors. A sampling of Capstone Partners' closed transactions is shown below.



HAS RECEIVED AN INVESTMENT FROM



GALLAGHER BASSETT
a subsidiary of
Gallagher



HAS BEEN ACQUIRED BY



CODE RED SAFETY
a portfolio company of
WARREN EQUITY PARTNERS



HAS BEEN ACQUIRED BY



VANCE STREET CAPITAL



SUPPLIES & SOLUTIONS
"We Take It Personally"

HAS BEEN ACQUIRED BY



TOTAL SAFETY
a portfolio company of
LITTLEJOHN & CO.



S SAFETY SERVICES COMPANY

HAS RECAPITALIZED WITH



Serent CAPITAL



WIND RIVER ENVIRONMENTAL

HAS BEEN ACQUIRED BY



RFE INVESTMENT PARTNERS

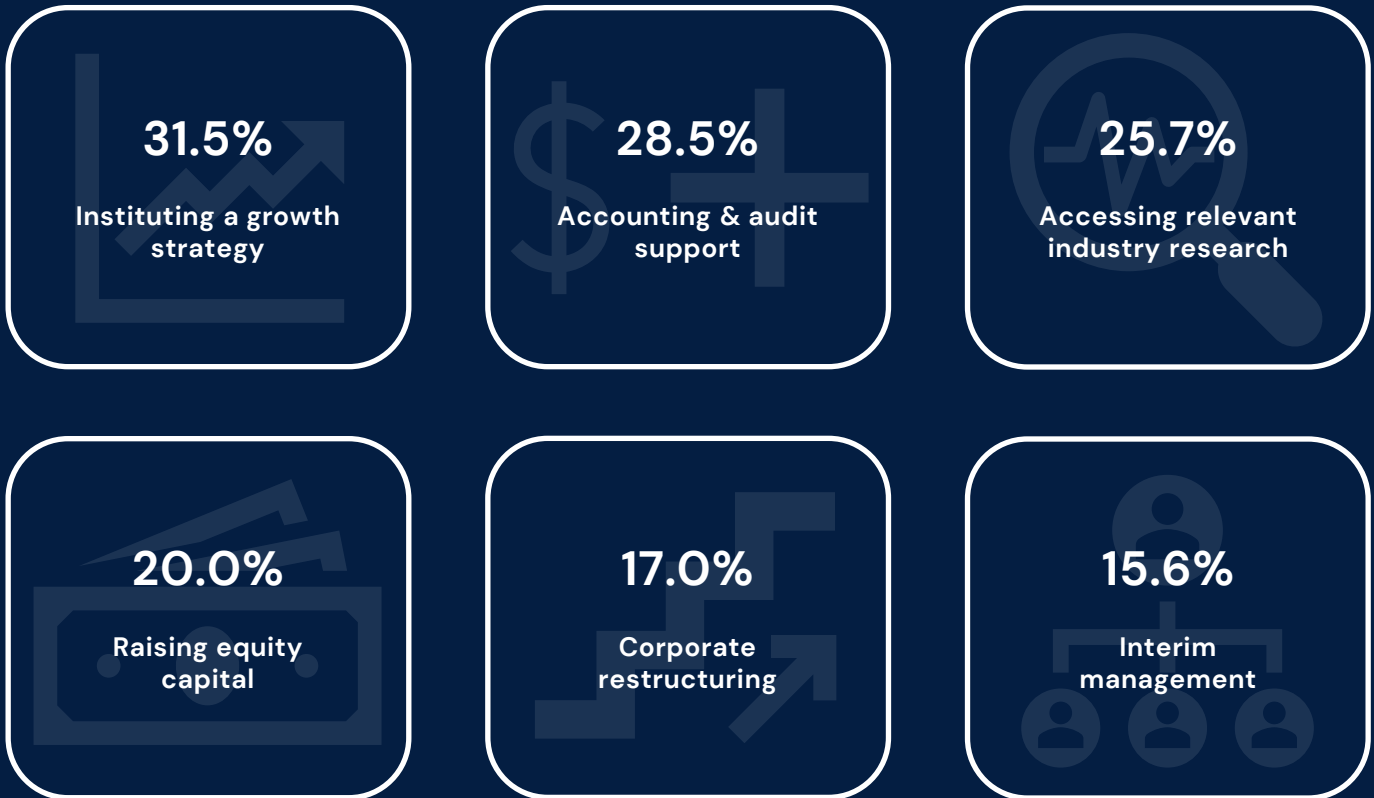


CAPSTONE’S PROPRIETARY RESEARCH REVEALS TOP SERVICES IN DEMAND

The current stage and initiatives of a business often dictates which financial services are in demand. As the majority of CEOs polled in Capstone’s 2023 Middle Market Business Owners Survey indicated growth strategies are a priority for 2024, the lion’s share (31.5%) of owners anticipate a need for growth strategy support services. Similarly, 28.5% of owners require accounting and audit support to shore-up cash flows and establish financial stability. In addition, more than one-fourth of CEOs demonstrated an interest in accessing relevant industry research to keep up with emerging industry trends, complete competitor analyses, and track capital markets activity in their space.

Capstone has developed a full suite of [corporate finance solutions](#) 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. In addition, we developed a specialty consulting practice to provide financial advisory services to companies experiencing distress or performance challenges. All of these capabilities are supported by 16 industry groups, an active sponsor coverage group, and a dedicated market intelligence team.

Top Financial Services Required by Business Owners in 2024



Question: Have you ever had, or do you anticipate having, a need for any of the following services?
 Source: Capstone Partners’ Middle Market Business Owner Survey, Total Sample Size (N): 435



ENDNOTES

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Disclosure

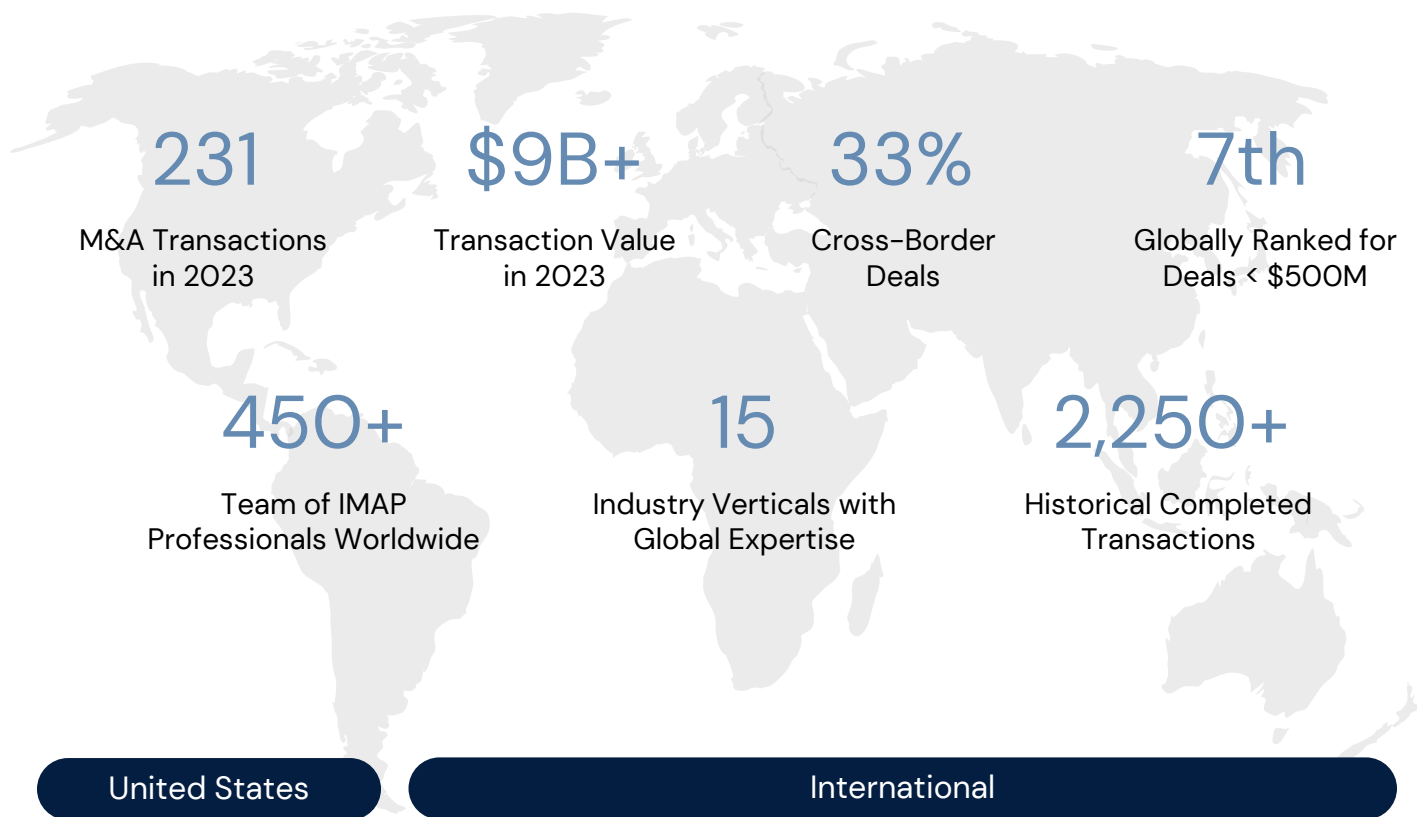
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CAPSTONE PARTNERS

Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ professionals across 41 countries.



~200 professionals
8 offices

Boston · Denver · Chicago · Dallas
Detroit · Irvine · New York · Tampa

450+ professionals
60+ offices in 41 countries

Asia: China · India · Japan · Thailand
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