ENVIRONMENTAL SERVICES
M&A TRENDS

Industry surveys are reporting 2017 M&A valuations for environmental consulting and engineering (C&E) firms at 10-year highs, citing record breaking P/E ratios and valuations of publicly traded companies, a demand from buyers to grow through M&A, and a shortage of companies available for acquisitions. However, the first half of 2017 actually saw a decline in M&A deals in the environmental C&E sector.

Engineering News Record reported a double-digit falloff in M&A activity, to the lowest level since 2013. M&A reports for 2017 show M&A deals falling off by 18% versus 2016. To be clear, deals are getting done at all levels but not at the higher volumes of 2015 when valuations were lower.

Sellers sat on the fence this year for clarity on the anticipated tax bill, now a reality. Companies hit by the downturn in the oil and gas in 2015-2016, now hope for return to a new normal. Companies in the current hot markets of infrastructure, transportation, water and real estate development, many have decided to ride this wave a while longer. Company owners who thought about internal transition plans are finding that employees have no interest in ownership.

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Environmental Services

Alarian Associates, Inc. is an experienced M&A advisor to lower middle market companies within the environmental services, emergency response and remediation sectors. Our senior executives combine deep sector knowledge, valuable insights and extensive industry relationships with an in-depth understanding of the core value propositions of environmental services and remediation companies across a range of sub-sectors. Alarian's senior bankers have spent the majority of their careers as operators and have developed profound understanding of the key value drivers supporting successful environmental services and remediation companies. This knowledge and expertise accrues to our clients, both buyers and sellers.

More importantly, for buyers, the Alarian team, knows how to find exclusive opportunities in this sector and for sellers how to maximize value for their most important asset and life-long work, their company. As former operators, the team is hands-on.

Recent Environmental Services Transactions & Assignments

First Response Environmental Services Group, an environmental and industrial service company was sold to C3Capital Partners, a fund management company based in Kansas City, MO. Alarian represented a seller in the transaction.

Alarian executives through its affiliation with Acquest International are engaged by HydroChemPSC to source environmental and industrial service companies serving the utility industry. Alarian developed targets that provided environmental programs for the Transmission and Distribution sector.

Representative Areas of Focus

Consulting	**Remediation & Cleanup**
Environmental Assessments	Federal and State
Staffing	Commercial Construction
Risk Evaluation & Audits	Industrial Services
Air & Water Quality	Natural Disaster
Sustainable Development	Nuclear
Natural Resource	Gas/Oil Pipeline

Buyers offer the other side of this story. Many traditional larger company buyers decided to take a time out on M&A to allow for the integration of deals already made, or are becoming much more strategic in pursuing perfect fit acquisitions.

A number of smaller to mid-size companies ($8-20 million in revenue) decided to play in the M&A game, particularly with the trove of micro-small companies for sale.

Will these high M&A valuations last? 2020's industry database continues to point to a pipeline of 750+ smaller environmental firms across the U.S. who are baby-boomer owned, and eventually need to make the decision to sell internally to their employees or externally to a strategic buyer.

Sellers weighing their options may decide that now is the right time to go to market and benefit from the current high valuations. Looking further out, should we see signs of an economic recession or a drop off in the current hot markets for environmental services, companies who thought about staying the course could find themselves in an M&A market downturn similar to 2013.

Deciding When to Buy or Sell

Determining when a business is ready to sell requires careful consideration of several factors. It is important to ensure that contracts are secure with favorable terms, revenue streams are diverse and trending positive, and the facility, permits and fleet are in good condition. Perhaps most important is the quality of the skilled employees, engineers, project managers, estimators and field foremen. It is also important to pay attention to conditions in the larger market. Currently, interest rates are low, capital is available, and public companies are trading at high valuations. Buyers are active, and the timing is generally favorable to consider an exit. Additionally the gap between seller and buyer expectations appears to have been bridged.

For Companies seeking tuck-in acquisitions, many look for acquisitions that are close geographically; add facets to existing services, opportunistically acquiring assets with attractive valuations, obtaining additional labor resources and/or entering a new market (e.g. health care, industrial). Targets with a solid book of permanent work, yet strong relationships within temporary work and feature a great management team are pursued.

For private equity firms seeking to acquire a platform many of the same qualities apply. For many PE firms, it comes down to the market dynamics, the geography that the business is in, and the quality of the team that's backing the company and seeking to recapitalize.

Evaluating How Much a Company Is Worth

Placing a value on a business requires considerable judgment and experience, as well as a detailed analysis of the company's financials and the macro trends affecting the industry. Valuation is typically determined using two primary types of analyses: discounted cash flow analysis and analysis of comparable M&A transactions or of publicly traded company valuations. For environmental consulting and remediation companies, EBITDA multiples typically range from 4 to 9 times; larger and healthier companies generally achieve higher multiples than smaller companies or those that are struggling.

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