

A photograph of a worker in an orange uniform, seen from the back, holding a yellow hard hat and a pair of blue gloves. The background is a blurred industrial setting with bright lights.

# Industry Report

Manufacturing & Distribution  
Essential Services

Industry Update | Manufacturing & Distribution Practice  
December 2024

**OBJECTIVE**

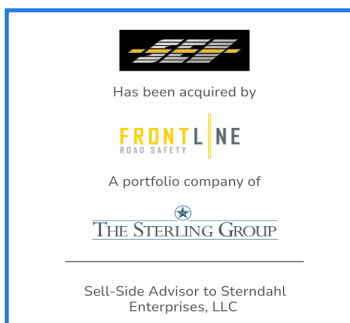
Investment Banking & Valuation

## Market Overview

### Key Takeaways

- While down from the 2021 spike, U.S. M&A deal volume in the Essential Services (“ES”) vertical appears to have settled in the pre-Covid range. The broader M&A market (all industries included) continues to lag the ES vertical in terms of relative deal activity. ES vertical closings have been skewing towards private equity as PE investors look for recession resistance in their targets.
- Valuations have stabilized as well, after expanding over the past year. The current average EBITDA multiple in the ES vertical is 7.3x (see Chart II).
- Publicly-traded ES companies have outperformed the broader market, with our Objective ES Equity Index noticeably breaking upward when compared to the Russell 2000 (see Chart III). ES companies can be an attractive area in which to invest.
- The US economy grew an annualized 2.8 percent in Q3 2024. The Conference Board expects the overall 2024 U.S. GDP to be up 2.6x by year-end and further predicts 1.7 percent real growth in 2025. These estimates are significantly higher than the Board’s earlier estimates, suggesting that the outlook is improving with time, particularly in the service sector.

### Recent Objective Closing in the ES Vertical:



Objective, Investment Banking & Valuation announced that it served as the exclusive sell-side advisor to Sterndahl Enterprises LLC (“SEI”) in its sale to Frontline Road Safety Group, a portfolio company of The Sterling Group.

**The acquisition of SEI brings together Sterndahl’s legacy of excellence in pavement marking in SoCal with Frontline’s dedication to a high-quality, comprehensive suite of road safety services, creating substantial market value.**

Objective Investment Banking & Valuation is a leading investment banking and valuation firm, advising lower middle-market companies through the following services:

#### M&A Advisory:

- Sell-Side

#### Valuation Advisory:

- Tax Compliance
- Transaction Opinions
- Financial Reporting
- Strategic Advisory

#### Industry Practice Groups:

- Manufacturing & Distribution
- Business Services
- Consumer
- Healthcare Tech & Services
- Life Sciences Services & Tech
- Technology

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# OBJECTIVE

Investment Banking & Valuation

Securities and investment banking services are offered through BA Securities, LLC member FINRA, SIPC. Objective Capital Partners and BA Securities, LLC are separate and unaffiliated entities.

Los Angeles | San Diego | Denver

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# Market Overview

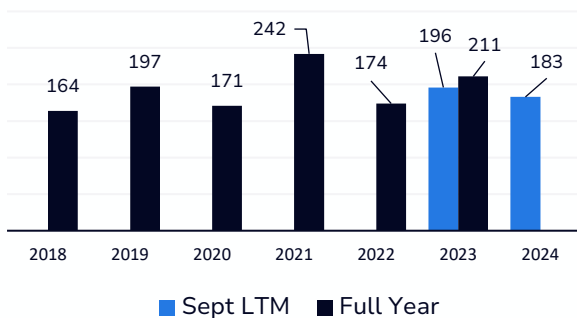
## Deal Volume

As stated in earlier reports, M&A activity in the Essential Services (“ES”) vertical has bounced back from 2022 lows and appears to have settled in the pre-Covid range (see Chart I). That said, activity slowed noticeably in Q3 2024 likely due to an expected pre-election slump, a common phenomenon every four years. Broader M&A market activity in North America continues to lag activity in the ES sector.

We have noticed an increasing number of PE firms focused on the ES space in recent years. Of the control sale transactions completed in the September 2024 LTM period, about one-third were sponsor-backed.

While the U.S. economy continues to grow, private company investors such as PE firms have been increasingly attracted to ES companies given the heightened recession expectations during the past two years. ES companies are viewed to be recession resistant. Concerns about a pending recession seem to be lessening (see Economic Indicators discussion on p4).

Chart I | Total M&A Volume<sup>(1)</sup>

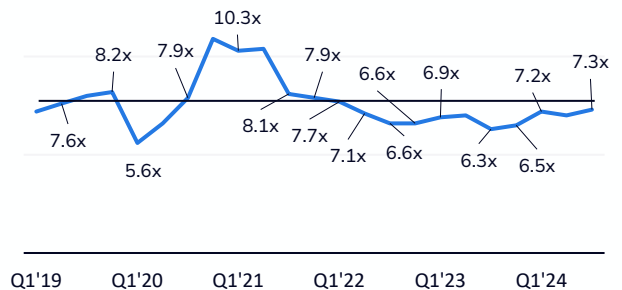


## Valuations

Valuation multiples for ES companies are down from the highwater mark hit during the height of Covid. Multiples started descending in late 2021 and bottomed out in Q3 2023 (see Chart II). Since then, the average EBITDA multiple has expanded by 1.0x to reach 7.3x in the most recent quarter. It now sits at the longer-term average where it is likely to stay indefinitely. Since this is an average, many transactions have closed above as well below this level. Case specific analysis is required to estimate your ES company’s valuation.

Our Objective ES Index, which is a composite of nine publicly traded ES companies (see Table I), experienced a breakout in 2022 and has surpassed the broader market since then. Our ES Index was up nearly 152 percent in the last five years. In contrast, the Russell 2000 was up 52 percent during the same time range. Historical price performance makes ES companies worthy of investor consideration and serves as validation for the M&A activity in the space.

Chart II | TEV / EBITDA<sup>(2)</sup>



# Market Overview

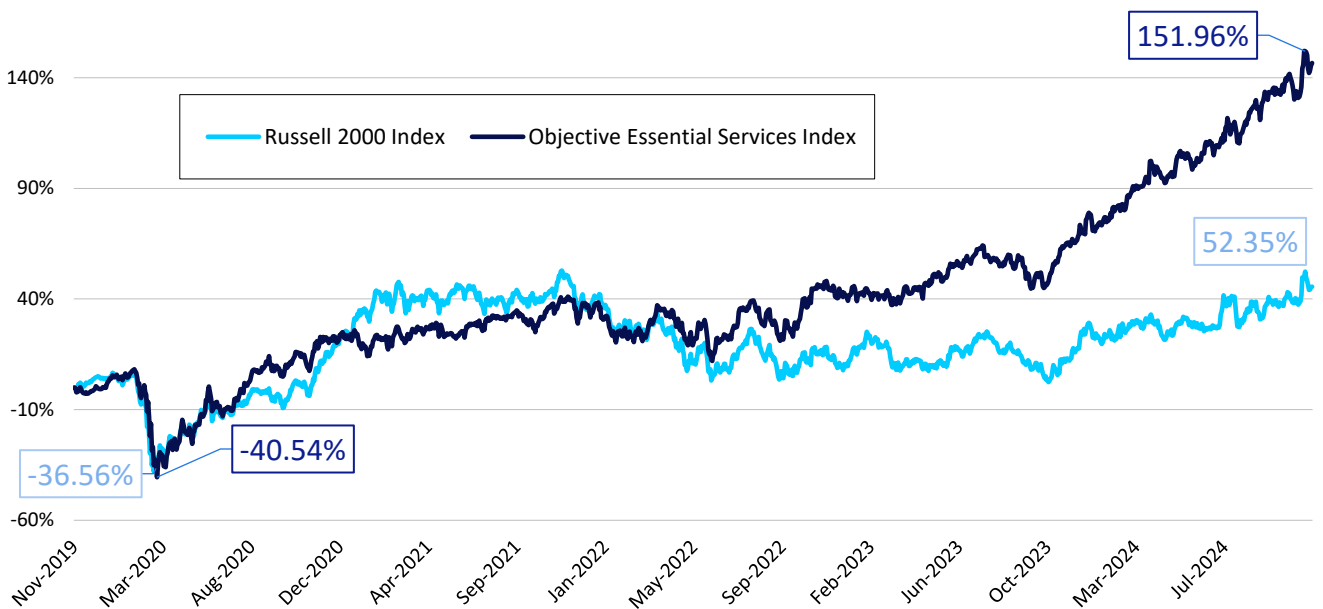
## Economic Indicators

Real gross domestic product (GDP) increased at an annual rate of 2.8 percent in the third quarter of 2024, according to the "advance" estimate. In the second quarter, real GDP increased 3.0 percent. The deceleration in real GDP in the third quarter primarily reflected a downturn in private inventory investment and a larger decrease in residential fixed investment.

The Conference Board expects the U.S. economy to expand by 2.6 percent year-over-year in 2024, a significant upward revision from recent reports. Some moderate growth at yearend and early next year may constrain annual 2025 growth to 1.7 percent despite expectations of stronger quarterly annualized growth over the course of that year. Slowing inflation and a healthy labor market should support measured interest rate cuts over the course of the next year.

According to the ISM's Services survey for October, economic activity in the services sector expanded for the fourth consecutive month and for the eighth month in 2024. Gains were seen in employment and supplier deliveries.

Chart III | Objective Essential Services Index vs Russell 2000



# Market Overview

## Public Comps

Table I | Publicly-Traded Essential Services Companies


(\$ millions)	Enterprise Value	LTM Total Debt	LTM Rev	LTM EBITDA	1-Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Rev Multiple	LTM EBITDA Multiple
AAR Corp	\$3,382	\$1,060	\$2,431	\$213	16.1%	18.8%	8.8%	1.4x	13.4x
ABM Industries	4,849	1,459	8,275	370	3.3%	13.5%	4.5%	0.6x	10.1x
API Group Corporation	12,474	3,138	6,916	737	0.6%	30.5%	10.7%	1.8x	13.7x
Aramark	14,789	5,567	17,401	1,142	(7.7%)	8.2%	6.6%	0.8x	6.4x
Cintas Corporation	90,644	2,838	9,756	2,450	8.5%	49.2%	25.1%	9.3x	35.7x
Comfort Systems USA, Inc	16,721	304	6,517	779	31.2%	20.4%	12.0%	2.6x	18.6x
Rollins, Inc	24,722	840	3,311	758	11.1%	52.6%	22.9%	7.5x	27.6x
The Brink's Company	7,038	4,133	4,993	800	3.6%	25.3%	16.0%	1.4x	7.1x
UniFirst Corporation	3,475	69	2,427	325	8.7%	34.9%	13.4%	1.4x	9.9x

Summary Statistics	Enterprise Value	LTM Total Debt	LTM Rev	LTM EBITDA	1-Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Rev Multiple	LTM EBITDA Multiple
High	\$90,644	\$5,567	\$17,401	\$2,450	31.2%	52.6%	25.1%	9.3x	35.7x
Low	3,382	69	2,427	213	(7.7%)	8.2%	4.5%	0.6x	6.4x
Mean	19,788	2,156	6,892	842	8.4%	28.2%	13.3%	3.0x	15.8x
Median	12,474	1,459	6,517	758	8.5%	25.3%	12.0%	1.4x	13.4x

At Objective’s Manufacturing & Distribution Practice, we recognize the unique demands of this industry and provide tailored solutions that optimize manufacturing operations, streamline supply chains, and capitalize on global market opportunities. Our expertise empowers manufacturing and distribution companies to achieve excellence in a rapidly evolving landscape.

The M&D industries complexities necessitate a comprehensive approach when preparing for an M&A transaction. We specialize in guiding M&D companies through this process, leveraging our expertise to help them achieve their objectives and secure favorable outcomes in their M&A endeavors.

## Dedicated Industry Knowledge & Expertise


 Has been acquired by  Sell-Side Advisor to AEM, Inc.	 Has been acquired by  a portfolio company of AEA Investors and Battery Ventures Sell-Side Advisor to Fluid Components International, LLC	 Has been acquired by  Sell-Side Advisor to Avista Technologies*	 Has been acquired by  Sell-Side Advisor to Holdrite*
 Has acquired  Buy-Side Advisor to Amada America, Inc.*	Purcell Technologies Has been acquired by  Sell-Side Advisor to Purcell Technologies*	 Has been acquired by  Sell-Side Advisor to MWS Wire Industries*	 Has been acquired by  Sell-Side Advisor to Reynolds Industry Incorporated*

\*Denotes engagements completed by an Objective principal prior to joining Objective

Award & Recognition	Forum	Year	Type
Cross-Border Deal of the Year (\$100MM to \$1B)	M&A Advisor 23rd Annual M&A Awards	2024	Finalist
Corporate/Strategic Deal of the Year (\$100MM to \$250MM)	M&A Advisor 23rd Annual M&A Awards	2024	Finalist
Best Investment Banking & Valuation Company 2024 - West Coast USA	Acquisition International	2024	Winner
Industrials Deal of the Year (Over \$100MM)	M&A Advisor 15th Annual International M&A Awards	2024	Winner
Private Equity Deal of the Year (Between \$75MM - \$100MM)	M&A Advisor 22nd Annual M&A Awards	2023	Finalist
M&A Deal of the Year (Between \$75MM - \$100MM)	M&A Advisor 22nd Annual M&A Awards	2023	Finalist
Industrials Deal of the Year (Between \$50MM - \$100MM)	M&A Advisor 21st Annual M&A Awards	2022	Finalist

**Objective, Investment Banking & Valuation** is a leading investment banking and valuation firm serving middle-market companies across six industry practice groups in an effort to maximize our clients' M&A and valuation advisory results. Our team uses a highly engineered, structured process combined with our industry expertise designed to consistently achieve maximum results.

## 500+ M&A Transactions Completed\*

 <p>Has been acquired by</p>  <p>Sell-Side Advisor to Supreme Optimization</p>	 <p>Has been acquired by</p>  <p>a portfolio company of AEA Investors and Battery Ventures</p> <p>Sell-Side Advisor to Fluid Components International, LLC</p>	 <p>Has been acquired by</p>  <p>Sell-Side Advisor to Kindred Bravely</p>	 <p>Has sold its clinical research site operations to</p>  <p>Sell-Side Advisor to Rocky Mountain Movement Disorders Center</p>
 <p>Has been acquired by</p>  <p>Sell-Side Advisor to AEM, Inc.</p>	 <p>Has been acquired by</p>  <p>a portfolio company of PARTHENON CAPITAL</p> <p>Sell-Side Advisor to Bell Canyon Consulting</p>	 <p>Has been acquired by</p>  <p>a portfolio company of RFE</p> <p>Sell-Side Advisor to Toft Group</p>	 <p>Has been acquired by</p>  <p>Sell-Side Advisor to Beacon Mobile, LLC</p>

\* This figure includes projects completed by Objective principals while at Objective and at previous firms.

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