



# INFRASTRUCTURE M&A YEAR IN REVIEW

Infrastructure Industry  
2023

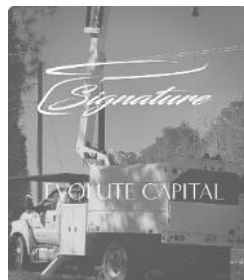
FOUNDERS  
ADVISORS

# Introduction to Infrastructure Sector



Utilities	Infrastructure	Engineering & Construction	Renewable Energy	Environmental Services
<ul style="list-style-type: none"> <li>✓ Water</li> <li>✓ Energy</li> <li>✓ Telecom</li> <li>✓ Power</li> </ul>	<ul style="list-style-type: none"> <li>✓ Rail Transportation</li> <li>✓ Bridge Services</li> <li>✓ Road Maintenance</li> </ul>	<ul style="list-style-type: none"> <li>✓ Construction &amp; Project Management</li> <li>✓ General &amp; Specialty Contracting</li> <li>✓ Building Services</li> <li>✓ Infrastructure Support</li> </ul>	<ul style="list-style-type: none"> <li>✓ Solar Contractor</li> <li>✓ Wind Contractors</li> <li>✓ EV Infrastructure</li> <li>✓ Operations and Management</li> <li>✓ Renewable Technology</li> <li>✓ Battery Storage</li> </ul>	<ul style="list-style-type: none"> <li>✓ Waterproofing</li> <li>✓ Remediation and Consulting</li> <li>✓ Hazardous Waste / Industrial Cleaning</li> </ul>

## Select Infrastructure Transactions

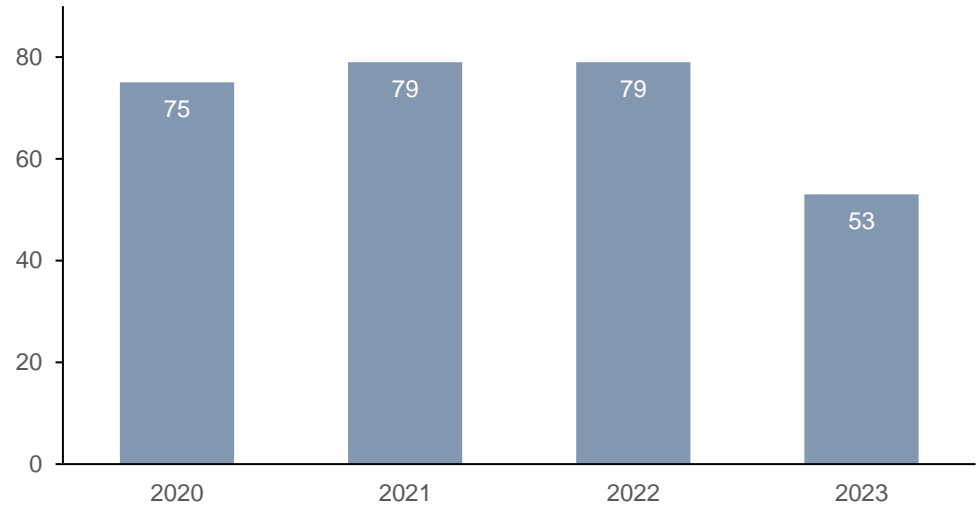


# General Infrastructure M&A Market Activity

## Overview

- Infrastructure M&A transactions have decreased from 75 in 2020 to 53 in 2023. M&A activity in the industry has been fueled by aging infrastructure and Biden’s Infrastructure Bill. U.S. Private Equity firms, referred to hereafter as, ‘Financial’ buyers, represent ~58% of the M&A activity.
- Buyers have favored industry segments with long-term secular tailwinds, such as highway and roadway repairs and services. Thanks in part to the 2021 Infrastructure Investment Jobs Act, increased demand is expected across infrastructure service sectors. Roads and bridges alone have been allotted \$550 billion in federal funding as a result.
- 2023 deal volume relative to the last three years has been low due to rising borrowing costs and inflation.

## Deal Volume by Industry Segment, Agnostic of Buyer Type



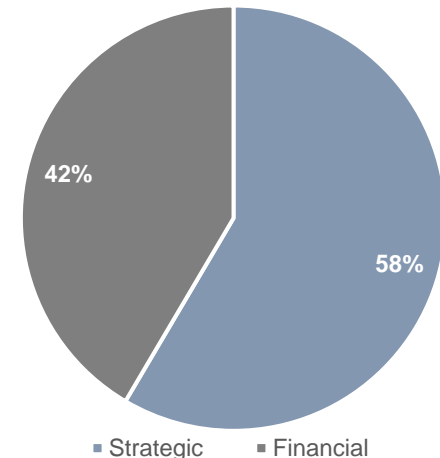
## Founders’ Recent Infrastructure M&A Deal Spotlight



March 2024

- Founders is pleased to announce that certain principals of Founders Advisors, LLC advised Lakeshore Environmental Contractors, LLC (“LEC”) in its acquisition by Quality Environmental Services (“Quality”).
- LEC is a leading provider of environmental remediation services. Known for its long history of abatement and remediation expertise.
- “We are extremely pleased with the outcome and the new partnership. We want to express our appreciation for all the hard work and guidance the Founders team provided LEC to get us across the finish line.”- *Scott Harrison, Stan Roth, and Aaron Murphree, Owners*

## 2020 – 2023 M&A Activity by Buyer Type



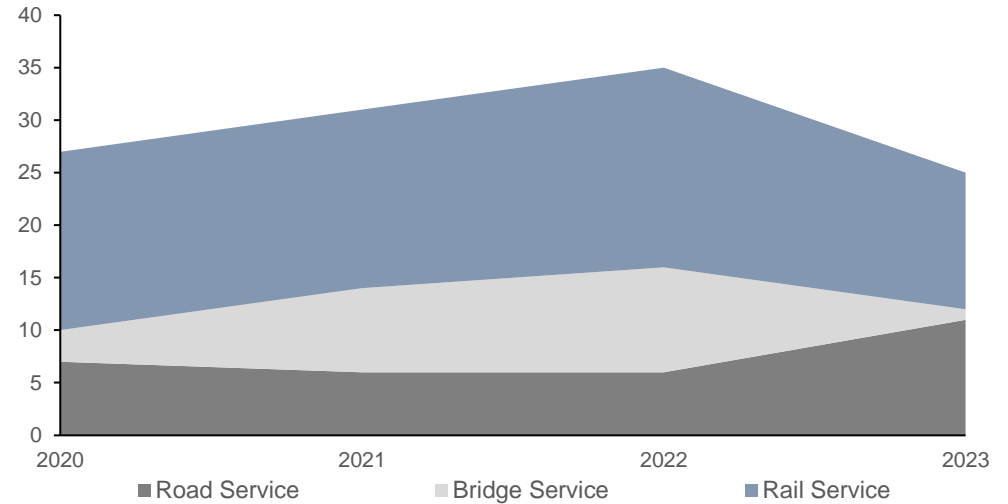


# Strategic Market Participants, Industry Outlook and M&A Trends







## Overview

- Strategic buyers, also known as companies that acquire other companies, are leveraging durable balance sheets to acquire smaller companies. This strategy within the Infrastructure segment is growing in popularity, which is helping drive M&A activity in the segment.
- The last few years, public strategic industry participants, such as Quanta, Trinity Industries, and Knife River are using M&A as a core component of their growth strategies as they look to expand reach in new geographies with both existing and new customers.
- According to earnings calls and channel checks, M&A continues to be at the forefront of management teams' mind. Expectation is that M&A activity from strategic industry participants will continue.

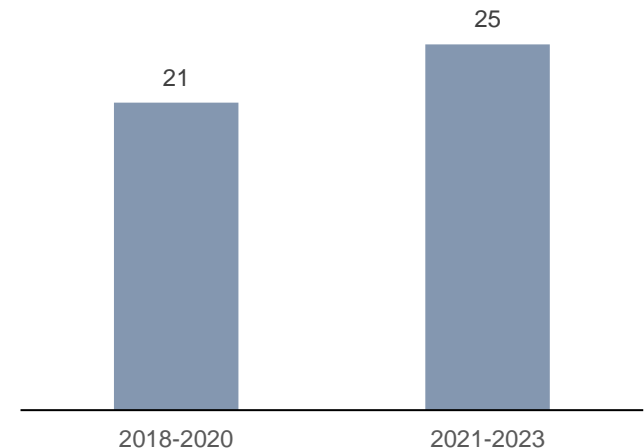
## Deal Volume by Strategic Buyers



## Select 2023 Strategic Transactions

Seller	Acquirer	Transaction Date	Industry
		Oct-23	Road & Bridge
		Jun-23	Rail
		Mar-23	Road & Bridge

## # of Acquisitions by Premier Strategic Buyers [1]

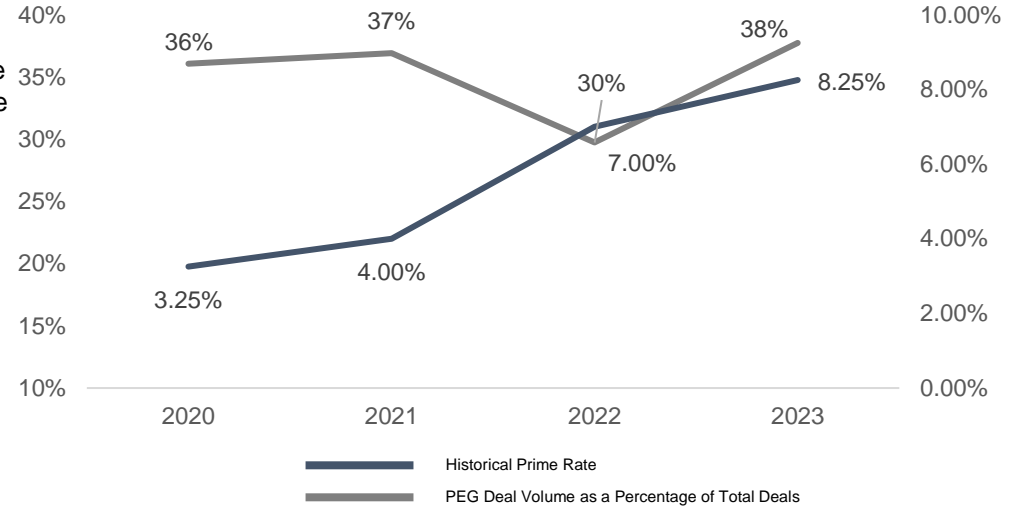


# Private Equity (PEG) Market Participants, New Platforms and M&A Activity







## Overview

- Dating back to 2020, Financial buyers were about 36% of the transaction volume of Infrastructure companies. Since then, the industry has seen growing interest from the buyer category as the revenue outlook for companies servicing the industry has become more predictable.
- Financial buyers will buy larger, more established companies as “Platform” investments, and then bolt-on other complementary business lines as “Add-On” investments. The establishment of new Platform investments will help drive M&A volume for smaller companies offering attractive services or performing services in attractive geographies. Over the last 12-months, transaction volume for Financial buyers leaned towards add-on additions.
- Rising interest rates have an inverted relationship with PEG deal volume due to the impact that interest rates have on a PEG’s ability to finance transactions with debt, giving strategics an advantage.

## PEG Deal Volume as a Percentage of Total Deals

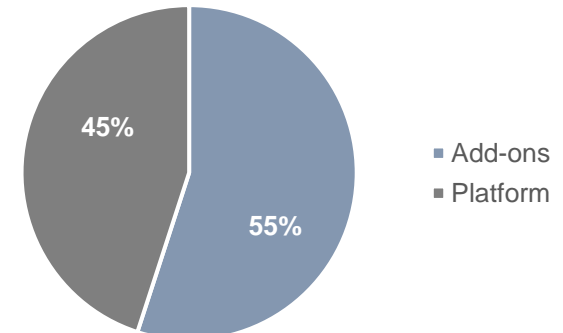


## Select Financial Transactions

Seller	Acquirer	Transaction Date	Industry
		Mar-24	Road
		Aug-23	Road
		Mar-23	Rail

## Add-on Investments

Add-ons are companies that PEGs will bolt-on to platform companies. Add-ons are generally smaller but will add accretive attributes to the Platform.



# Introduction to North American Railroads

## Overview

**Class I**



Class I railroads are large, major freight carriers that operate over extensive networks and handle significant volumes of freight traffic

## Statistics [1]

Greater than \$900mm in revenue	6 Railroads
~100,000 Miles (69% of Industry Total)	Employees: ~163,000

## Major Players



## Overview

**Class II (Regional)**



Local railroads focused on serving specific geographic regions or local markets that play an essential role in connecting communities to the broader transportation network

## Statistics

Between \$20mm and \$900mm in revenue	21 Railroads
~10,000 Miles (7% of Industry Total)	Employees: ~5,000

## Major Players



## Overview

**Class III (Short Line)**

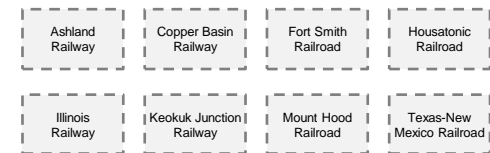


Smaller railroads that provide the "last-mile" or "first-mile" of transportation services for a diverse range of commodities and goods

## Statistics

Less than \$20mm in revenue	582 Railroads
~35,000 Miles (24% of Industry Total)	Employees: ~12,000

## Major Players



## Overview

**Industrial**

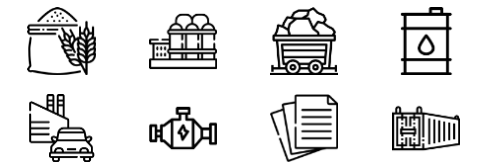


Private rail tracks within the confines of Industrial facilities typically with a niche focus for the Industrial site they serve

## Statistics

~600k Manufacturing Business in the U.S.	IPI = 103 (2017 = 100)
2022 Industrial Industry = \$7.1 Trillion	~12% of GDP driven by Manufacturing

## Industrial Market Served



## Overview

**Transit / Passenger**



Sector responsible for providing passenger rail services for public transportation within urban and suburban areas for commuters and travelers

## Statistics

31.6mm Annual Intercity Rail Trips	~21,000 Miles (~30% owned by Amtrak)
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## Major Players



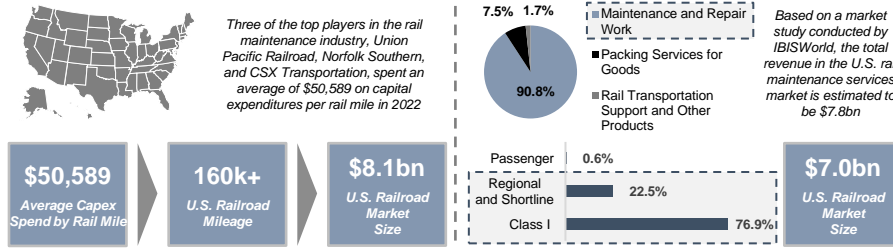
# Railroad Market

The US market size for railroad service sits around \$7.55 billion and \$1.25 billion for industrial companies

## Railroad Market

The railroad market encompasses Class I, Regional, and Short Line railroads, each serving different geographical areas and markets that are either privately owned and operated (Regional / Short Line) or publicly traded (Class I)

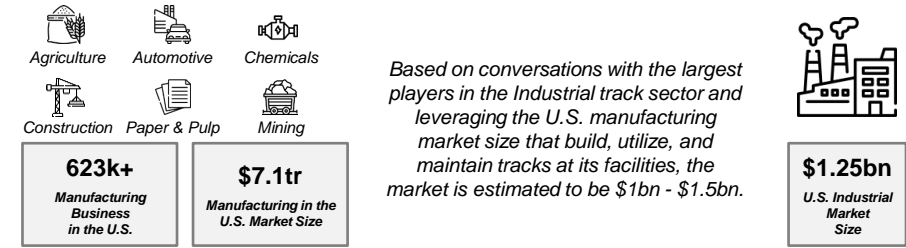
### Railroad Market Sizing



## Industrial Track Market

The Industrial track market consists of the network of tracks that are owned and operated by Industrial facilities or companies to transport goods to and from its facilities or to connect to the mainline railroads for broader distribution

### Industrial Track Market Sizing



### Select Railroad Participants



### Railroad Market Size

**\$7.55bn**  
U.S. Railroad Market Size [1]

### Industrial Market Size

**\$1.25bn**  
U.S. Industrial Market Size [2]

### Select Industrial Participants



**\$8.80bn**  
US's Market Size

### Railroad Tailwinds

**Outsourcing Maintenance Services to 3<sup>rd</sup> Party Contractors**

Railroads have trended towards outsourcing maintenance and repair work to 3<sup>rd</sup> party contractors rather than performing the work internally, often with unionized labor. This trend is driven by cost efficiencies, specialized expertise, regulatory compliance, availability of labor and equipment, and a large initiative to outsource the liability associated with maintaining, repairing, and utilizing the railroad.

### Industrial Tailwinds

**Onshoring and Localization / Supply Chain Resilience**

Industrial tracks are typically owned and operated by the companies that own the Industrial facilities they serve. Recent trends have led the to the desire to onshore more goods and production causing Industrial companies to invest in its own track infrastructure to streamline transportation and reduce reliance on external logistics providers. Building Industrial tracks allow companies to have greater control and flexibility in managing any supply chain disruptions and ensuring continuity of operations.

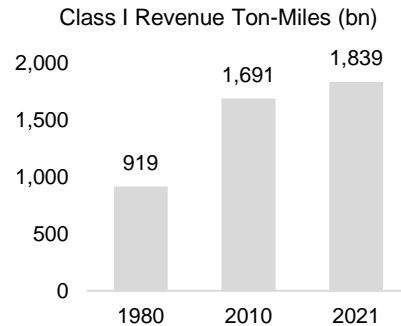
# Evolution of the Industry

The rail maintenance industry has changed drastically since the Staggers Rail Act of 1980, as railroads have decreased employment and increased the amount of rail usage and maintenance required, driving the demand for outsourced services

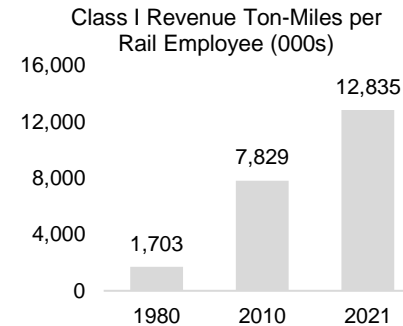
## Decreasing Employment <sup>[1]</sup>



## Increasing Rail Usage <sup>[2]</sup>



## More Rail Usage per Employee



## Drive Outsourced Services

Since 2010 the revenue of the outsourced rail services industry has grown by a CAGR of 5.7% <sup>[3]</sup>

Revenue of the outsourced rail services industry is projected to grow by a CAGR of 2.0% from 2023-2028 <sup>[3]</sup>

BNSF's use of contractors to perform maintenance of way work more than doubled since 2016 <sup>[4]</sup>



## Rail Services Outsourcing Overview



### Outsourced Maintenance Services

Railroads require routine maintenance services. Those services include replacing components of the railroad that wear down over time such as rail ties and ballast.



### Outsourced Emergency Response

Outsourced providers are often the best answer for emergency response services. Each day of downtime that an outsourced provider can eliminate saves thousands of miles of rerouted trains, and they provide unique advantages over union employees.

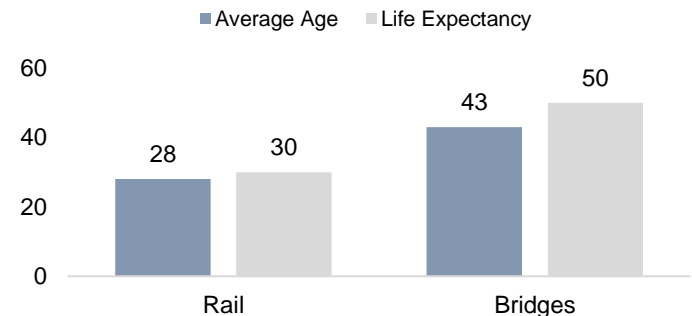


### Outsourced New Construction

Construction of new routes or the building of additional tracks to existing routes is often more cost-effective to outsource. Contractors that have existing equipment can spread cost over many projects.

## Continued Maintenance Need <sup>[5]</sup>

### Average Age and Life Expectancy of U.S. Infrastructure





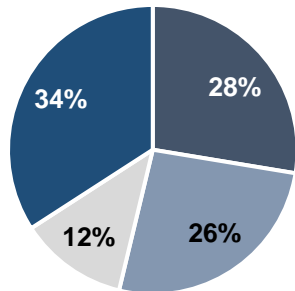
# Track Maintenance Services

Class I railroads continually reinvest in infrastructure, spending around ~20% of revenue on capital improvements and ~10% of operating expenses on repairs and maintenance to ensure efficiency of operations [1]

## Track Maintenance Overview

*Railway track maintenance is a complex and important process that must be done to ensure the safety and reliability of trains. It involves both proactive and reactive maintenance activities, as well as regular inspections and repairs*

### UP RR Infrastructure Replacements [2]



- Ties
- Rail and other track material
- Ballast
- Other [3]

## Routine Maintenance

*Routine maintenance is the most common type of railway track maintenance. This includes activities such as visual inspections, replacing worn-out parts, greasing points, cleaning, repacking ballast, and other general upkeep activities.*

*Routine maintenance should be done regularly in order to keep tracks in peak condition and prevent any major issues from occurring*

## Select List of Components of the Railroad Requiring Maintenance



### Rail Ties

Inspections

Rail Ties Replacement

Tamping

Track Bed Preparation

### Rail

Rail Grinding

Rail Lubrication

Track Inspections

Welding – Thermite and Magnesium

### Ballast

Ditching

Excavating

Shoulder Ballast Cleaning

Undercutting

### Other

Bridge and Tunnel Inspections

Highway Crossings Maintenance

Scrap Removal

Vegetation Management

## Preventive Maintenance

*Preventive maintenance is a proactive approach to railway track maintenance that involves anticipating potential problems before they happen and taking steps to address them before they become major issues*

*Examples of preventive maintenance include inspecting running rails for wear or cracks, using special tools to detect weak spots in rail joints, regularly checking under bridges for damage, and performing routine tests on equipment such as switches, signals, crossings, etc.*

## Corrective Maintenance

*Corrective maintenance is needed when something has gone wrong with the railway tracks or its components. This type of railway track maintenance involves identifying the issue at hand and then taking corrective action to fix it as quickly as possible.*

*Examples of corrective maintenance include repairing broken rails or ties, replacing damaged parts, realigning tracks, fixing drainage issues, removing vegetation from around tracks, repairing switches or other faulty components, etc.*

[1] Class I Railroad Filings.

[2] Union Pacific 3-year average.

[3] Note: Other includes bridges and tunnels, signals, other railroad assets, and railroad work equipment.

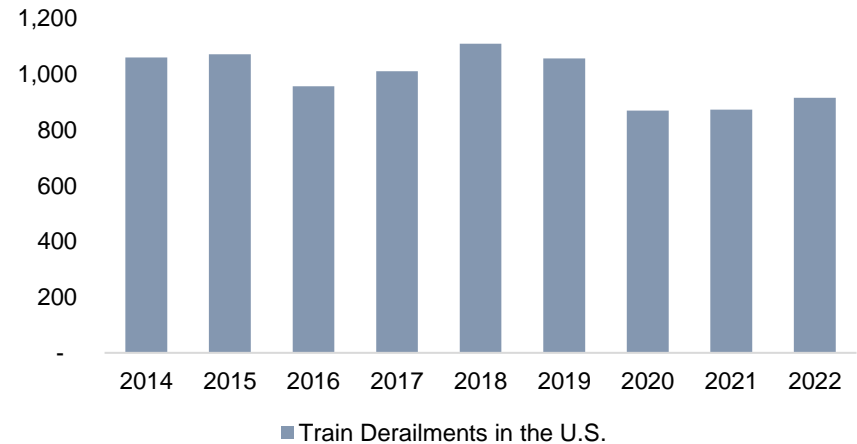
# Emergency Response

Three trains derail each day, according to the Federal Railroad Administration, requiring specialized equipment

## Emergency Response Overview

- Emergency response services are non-predictable in nature and highly disruptive to rail operations
- Class I railroads have embraced Precision Scheduled Railroading (PSR), a management strategy that emphasizes operational efficiency – leading to a downsizing of maintenance employees across the industry and increasing the reliance on outsourced maintenance
- Most derailments occur in rail yards, as yard movements are more complex – having an outsourced provider with rerail capabilities is more cost effective than having that equipment in each rail yard over the Country
- Track defects are the leading cause of train derailments, exhibiting the importance of infrastructure maintenance and inspections

## Class I Train Derailments in the U.S. [1]



## Emergency Response Services

Emergency Culvert Construction	Derailment Debris Removal	Emergency Erection of Bridge Structures	Hazardous Materials Removal
Emergency Heat Straightening	Emergency Load Out & Tie Down	Load Reductions And Shifts	Removal of Damaged Car(s)
Rerail Cars	Emergency Roller Bearing Inspections	Emergency Silo Cleaning	Derailment Site Preparation
Emergency Structural Steel Fabrication	Thorough Derailment Site Clean Up	Traction Motor/Wheel Changes	Derailment Transfer of Loads

## Services in Action



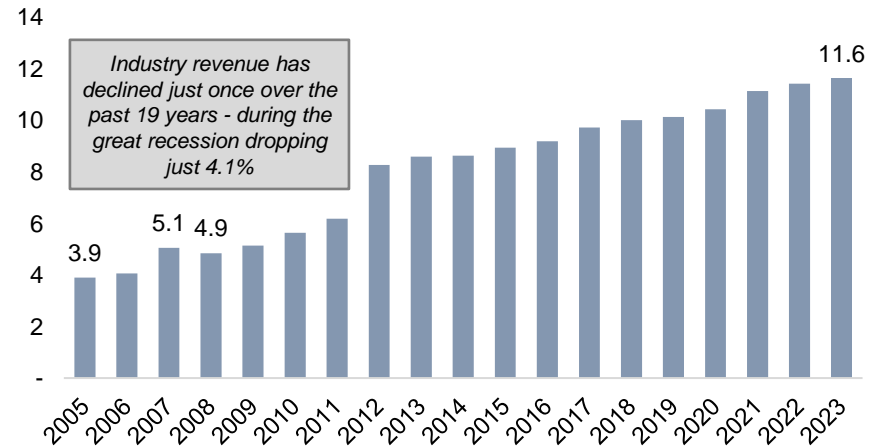
# New Track Construction

Railroad track construction is a cycle resilient service to the most critical infrastructure in the United States

## New Track Construction Overview

- Class I railroads consistently reinvest in infrastructure to optimize route efficiency
- As freight volumes and populations across the U.S. increase, more efficient routes are required to optimize revenue, leading the Class I railroads to build new lines to new locations, add parallel track sections to increase capacity, and rebuild segments of the railroad to increase the weight capacity as longer and heavier trains run with Precision Scheduled Railroading (PSR)
- According to IBISWorld, of the \$11.6 billion 2023 Railroad Track Construction market size, \$6.9 billion (59%) is revenue from new track construction, \$2.7 billion (23%) is revenue from track additions, and \$2.0 billion (18%) is from track maintenance

## Railroad Track Construction in the U.S. Market Size (\$ in billions) <sup>[1]</sup> <sup>[2]</sup>



## New Construction Process



## New Construction Projects

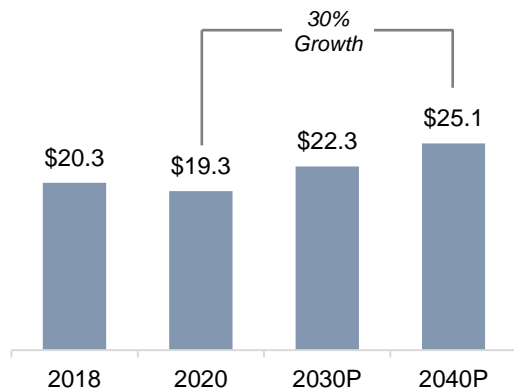


# Freight Transportation Growth Towards Fuel Efficient Railroads Over Trucking

Freight rail's energy efficiency and emissions reduction make it environmentally superior to truck transportation and contribute to the growth within the industry

## Freight Transportation Growth <sup>[1]</sup>

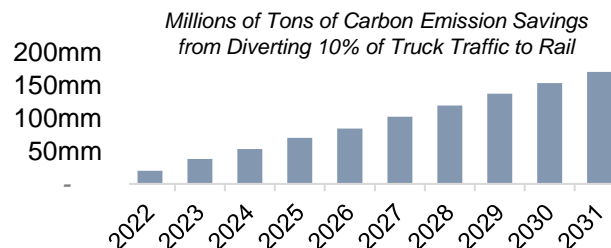
Billions of Tons Transported in the U.S.



The U.S. Department of Transportation forecasts that total U.S. freight movements will rise from \$19.3bn in 2020 to \$25.1bn in 2040. As the safest and most fuel-efficient way to move goods over land, freight railroads are critical to meeting this demand.

## Carbon Emission Savings from Truck Traffic to Rail Traffic <sup>[2]</sup>

Freight railroads are the most fuel-efficient way to move freight over land. Freight rail accounts for only 1.7% of all transportation-related GHG emissions and on average, railroads are 3-4 times more fuel efficient than trucks. Moving freight by rail instead of truck reduces GHG emissions by an average of up to 75%.



**936mm+ tons**

Of carbon emissions saved over 10 years moving freight by rail instead of truck

## Freight Railroads are Part of the Solution to Climate Change <sup>[2]</sup>

Railroads are making targeted investments, developing innovative technologies and evolving operations to combat climate change. With policies grounded in data that encourage innovation, leveraging market-based competition, and allowing for varied approaches among multiple stakeholders, freight railroads will deliver a more sustainable future for all.

### Railroads Fuel-Efficiency <sup>[3]</sup>

**One Train**

One train can carry the freight of hundreds of trucks reducing highway congestion

**3x-4x**

On average, freight railroads are 3x-4x more fuel efficient than trucks

**83mm+**

Without railroads moving freight, it would take 83mm+ trucks to handle the freight volume

### Railroads Innovative Technology and Engineering

#### Fuel-Efficient Locomotives



Today's locomotives emitted fewer criteria pollutants and GHGs over the past decade

#### Fuel Management Systems



Advanced computer systems analytics improve fuel efficiency by 14%

#### Anti-Idling Systems



Stop-start systems and other idling-reduction technologies can reduce unnecessary idle time by 50%

#### Zero-Emission Cranes



Increased use of zero-emission cranes to transfer containers reduce ambient pollution

#### Improved Railcars



Redesigned rail cars cut down fuel consumption through improved aerodynamics and reduced weight

#### Distributed Power



Expanding use of positioning locomotives throughout the train reduce train horsepower required



# Representative Infrastructure Buyer Landscape

Founders' Power & Infrastructure team has a select focus on Infrastructure companies and through a myriad of processes has developed tenured relationships with some of the largest private equity platforms & public companies in the industry

## Founders Select Relationships

Road



Bridge



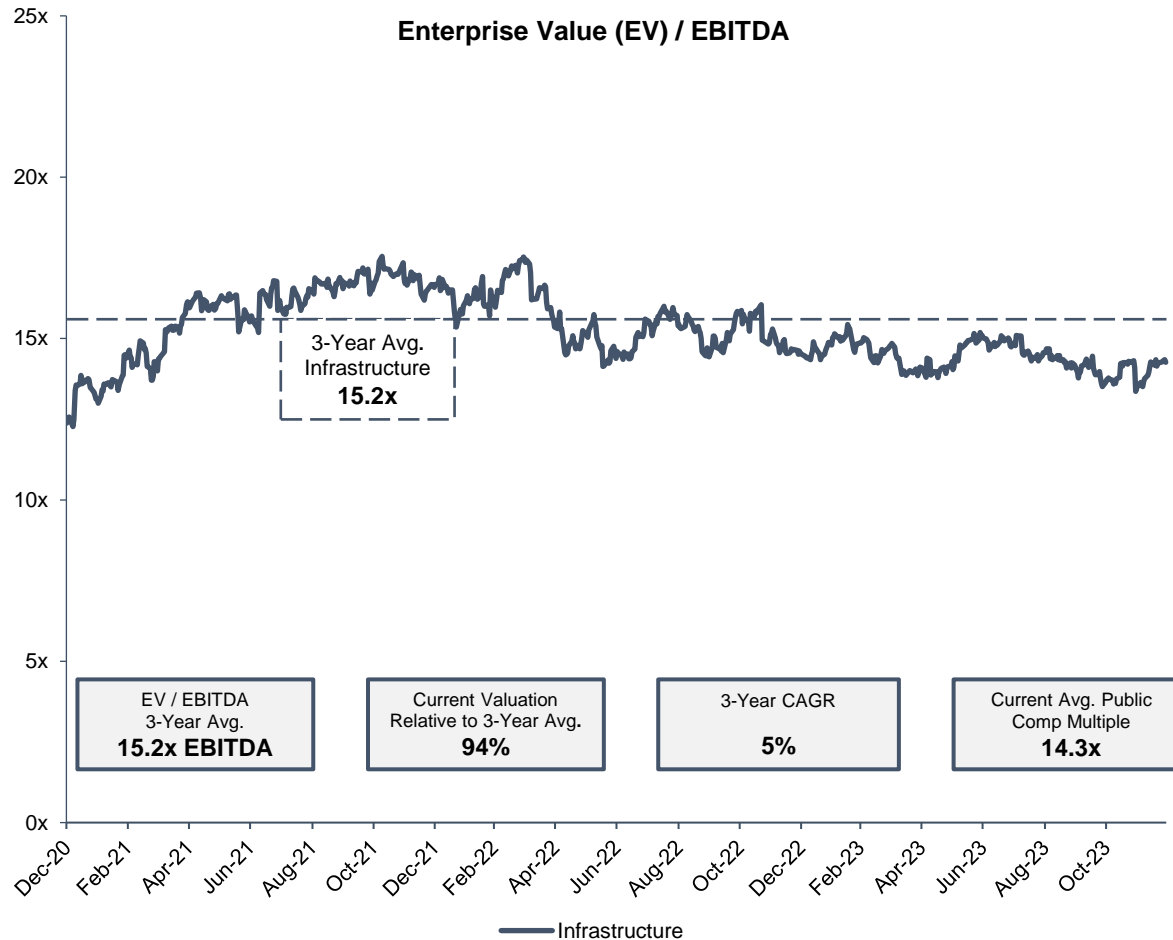
Rail



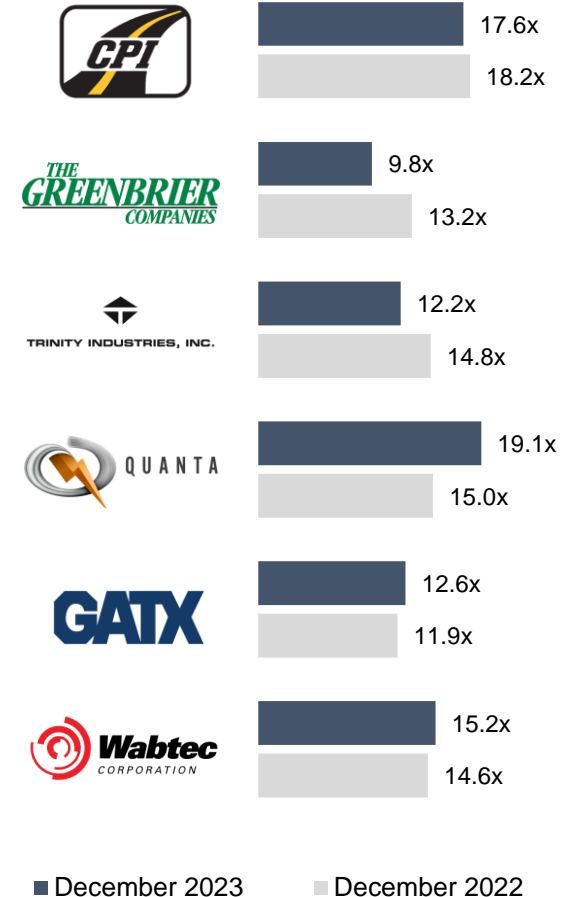
# Valuation Trends

As the broader macroenvironment continues to improve, Infrastructure public companies have followed suit and seen strong upticks in their EV/EBITDA ratios

## Infrastructure Public Company Ratios



## EV / LTM EBITDA Multiple

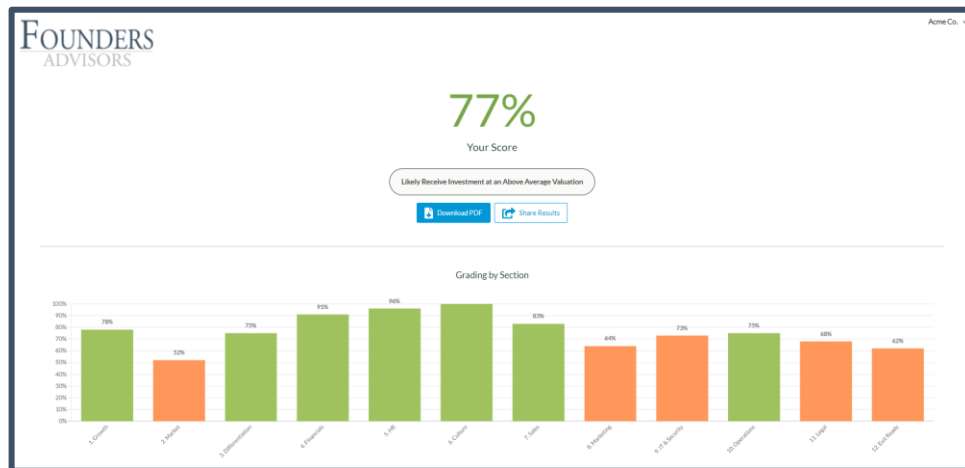


# Power & Infrastructure Assessment

Founders has provided a free assessment to identify ways to prepare a business for a potential exit

## Is My Company Exit Ready?

Identify Key Areas Maximize Your Company's Enterprise Value in a Sale



**1. Growth, Profitability & Financial Health** 78%

**Summary**

Size/Scale is one of the most common reasons that investors pass on an investment opportunity. Scale also impacts valuation potential because investors are willing to pay premiums for companies that have been established as leaders in their space.

**How to improve your score**

The following action steps are places we recommend you focus to improve your score in this section.

- Look for ways to expand into new geographies, new offerings, or with existing customers.
- Determine if there is an issue with your product-market fit or if customers need more attention to improve retention rates.
- Ensure your cost of goods sold is full-burdened and focus on growing your highest margin revenue streams.

**YOUR RESPONSES**

Company's last twelve months revenue

- >\$30mm
- ▶ **\$16-30mm**
- \$6-15mm
- \$4-5mm
- \$0-3mm

**Feedback**

Assuming the large majority of the revenue is recurring, \$16mm-\$30mm in last twelve months revenue would be very attractive to software investors.

**Growth**

This section is weighted the highest as it is the crux of a healthy business. It is one of the most challenging areas to improve, but we are here to help.

[Talk to an Expert](#)



**Customized Assessment for Infrastructure Companies**



**Actionable Advice to Help Maximize Value in a Transaction**



**~100 Questions**



**25 Minutes to Complete**



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## Recent Transactions



## Experience Across a Wide Array of Sectors

- Advanced Manufacturing and Process Equipment
- Advanced Materials
- Automation and IIoT
- Connectors and Electronics
- Construction and Building Materials
- Facility and Industrial Services
- Plastics and Packaging
- **Power and Infrastructure**
- Specialty Distribution
- Test and Measurement



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