

# The M&A Sector of the Building Services Industry:

---

## Current Status

---

*OPINION – Gary A. Penrod  
Gary Penrod and Associates, Inc.  
843 681 6588 x11  
Penrod3111@aol.com  
www.garypenrodandassociates.com*

*In the last status report, I referred to the economic status as it applies to small business in general and the building services industry in particular as being dismal, but with a glimmer of light beginning to emerge. That glimmer persist and while **dismal** may not accurately described the current economic status, it is still far from robust.*

*As during the first and second quarters of 2010, **uncertainty** still prevails. However, while **uncertainty** may still prevail, I sense that the industry is becoming used to it, so it just may be that what is happening is that the industry is moving ahead in spite of the economic uncertainty. It just may be that, at least for the immediate future, the current economic atmosphere is the **new** normal. It could be worse!*

*Recovery to where we were prior to September 2008 may take a long time, or maybe that status is a thing of the past, never to be achieved again in our lifetime. However, I remain optimistic that those engaged in the building services industry will work hard to make the new normal work well. It is already happening. Profits, while not necessarily robust, are not far off from that of pre 2008. In fact, some companies, depending on the market sector in which they are engaged, are prospering. The industry has always been innovative, going back to the birth of the modern building services industry, just after World War II. That innovative spirit is alive and well in my view, continuing to influence the evolution of the industry.*

*How has all of this influenced the merger and acquisition activity within the industry? Activity has increased from the low rate of 2009 that was influenced by fear and uncertainty. Even in 2009, however, valuation for good companies held the line. Beginning in the first quarter of 2010, activity has increased. Buyers and sellers, albeit perhaps more cautious, are moving forward in the **new normal** atmosphere.*

*According to **William Blair and Company** in their monthly commentary\**

- *"Private-equity activity continues to accelerate.*
- *Recent activity shows solid increase.*
- *Recent middle-market activity continues to rebound.*
- *They believe that the overall environment remains favorable for transaction activity to continue to show positive comparisons, ending 2010 with significant gains over the results of 2009."*

*What about valuation? I have observed valuation trends for companies engaged in the building services industry since 1984 and find that there has been very little difference in valuation during those 26 years. True, there have been some differences in price component ratios (cash, promissory note, earn out) during certain periods. However, even those ratios have not varied significantly since 1984, and likely before 1984 too. Therefore, in general, I conclude that even during the current economic atmosphere, good companies will continue to bring a price that is fair for both buyer and seller and that the original investment made to start a company will prove to have been a very good investment.*

*As noted in the last issue, financing an acquisition can still be a challenge if the buyer relies on a commercial bank for financing. Equity financing through private sources and investment groups in taking up some of the shortfall in bank financing. Investor groups especially, have shown a keen interest in the industry, probably because of the relative stability of the industry.*

*\* Merger Tracker: August 2010 Issue from William Blair and Company*

*and (2) senior management that will stay on for 3(+) years. They gain comfort if the shareholder(s) are willing to agree to an earn out or to retain stock of 20% to 25% of the purchase price.*

*GPA is currently representing nine seller projects and is engaged in an effort with two qualified buyers seeking acquisitions that meet their preferred profile.*

*Following are GPA's seller client market areas:*

<i>West Coast</i>	<i>2</i>
<i>Mid West</i>	<i>2 (one landscaping)</i>
<i>Northeast</i>	<i>1</i>
<i>Southeast</i>	<i>2</i>
<i>Canada</i>	<i>1</i>
<i>Caribbean</i>	<i>1</i>

*As I noted in the last issue, qualified buyers will value a company based on how it meets their unique expectations and how the **fit** is for them. There is no right or wrong in determining value. It is simply a matter of how important a particular acquisition is to the prospective buyer.*

*We at GPA remain cautiously optimistic about the rate of acquisitions activity during the remainder of 2010 and all of 2011, due primarily to prospective buyers and sellers coming out of their protective shells. We at GPA remain eager and able to assist both qualified prospective buyers and sincere sellers.*

*I invite your questions and comments about anything that has been written here, or about any questions that you may have about the acquisition process.*

*We are here to assist. **STAY TUNED!***

