

Infrastructure

M&A Update Report

“Market Intelligence for Business Owners”

Q3 2013



Capstone Partners
Investment Banking Advisors



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ACQUISITIONS CONTINUE IN 2013

Demand for infrastructure investments in the U.S. is on the rise, generating a continuing upward climb in M&A activity as the number of deals catches up with investor demand. Acquisitions of infrastructure related businesses – which comprise many sectors such as water, energy, transportation, industrial and telecommunications – are particularly appealing because of the industry’s expected future growth. These investments can offer attractive rates of return, relative stability in cash flow, protection from inflation and relatively low risk in the volatile economy of today.

M&A transaction activity in the infrastructure sector has remained strong in 2013, with a focus on smaller to mid-sized companies. Most of the acquired companies can be grouped within three categories in terms of products and services offered: 1) industrial equipment, including tanks, load engagement devices, roadway lighting structures, solar panels or water filters; 2) engineering and consulting companies, including roadway, traffic, utilities and wastewater engineering; and services for companies including utility upgrades, facility site assessments, project management and critical area evaluations; and, 3) infrastructure products and related technology, including advanced metering, software processing systems, energy measurement systems; and gas, chemical and radiation sensors. With the continuous buildup of infrastructure projects, there is great demand for equipment, technology and services that satisfy the need for increased efficiency and cost minimization.

A review of this year’s transactions shows that both strategic and private equity firms, a number of them foreign buyers from countries such as Canada, the United Kingdom and Japan, have been actively acquiring companies in the space. In general, as competition intensifies, companies in the industry are looking to establish a broader range of quality products and services to offer customers, as well as a stronger geographic foothold from which to service global customers.

Many strategic players are acquiring proprietary technology companies that offer promising growth and can be used to increase the capabilities of their current products. Companies are also trying to maximize efficiency by increasing economies of scale through lateral expansion. Meanwhile, increased regulatory burdens, pricing competition and the modernization of technology are causing some smaller companies to struggle. Some are favoring consolidation with larger companies that tend to be better equipped to manage such issues.

Private equity buyers, which generally focus on companies with promising growth and good market visibility, are also continuing to increase their presence within the sector, particularly through complementary bolt-on acquisitions. The significant growth in infrastructure funds, as well as the perceived long-term sustainability of the industry, continues to make the infrastructure space very attractive to buyers.

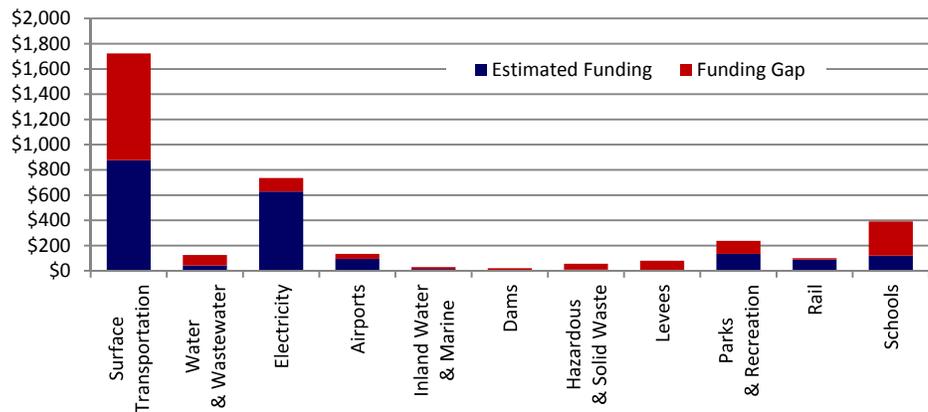
INFRASTRUCTURE NEED DRIVES M&A ACTIVITY

Buyers expect to see growth in the industry stemming from the backlog of projects necessary to repair and rebuild the nation’s aging infrastructure.

A critical need for improvements is the primary driver behind continuing M&A activity in the infrastructure space. Many of the nation’s roads, bridges, water systems and electric grids were constructed over 50 years ago and are now in need of replacement, with the problem further amplified by a growing population. Buyers expect to see growth in the industry stemming from the backlog of projects necessary to repair and rebuild the nation’s aging infrastructure. According to the American Society of Civil Engineers, the investment needed to address the nation’s infrastructure improvements is projected at \$3.6 trillion by 2020.

While the need for new and improved systems is pronounced, the government continues to struggle with inadequately funded infrastructure reform proposals. In the 2013 State of the Union address, President Obama unveiled a plan to rebuild and reinvest in the country’s infrastructure by implementing a “fix it first” policy calling for investment of \$50 billion in transportation infrastructure. Then in May, the Senate passed The Water Resources Development Act of 2013, which promotes investment in critical U.S. water infrastructure, accelerates project delivery and improves the execution of the Corps of Engineers. However, debt burdens facing the government continue to limit the availability of public funds to pursue the necessary infrastructure improvements. As a result, a recent report estimates the federal shortfall in infrastructure spending will exceed \$194 billion a year.

Cumulative Investment Needs, 2012-2020 (\$Billions)



Source: ASCE 2013 Report Card for America’s Infrastructure

The government is expected to welcome private investment to help fill the funding void. Globally, unlisted infrastructure funds raised a total of \$15.4 billion through June 2013, up 88% from the same period in 2012. At the start of Q3 2013, there were 142 such funds aiming to invest \$92 billion in institutional capital. While 74% of institutional investors have less than 5% of assets invested in infrastructure, 49% have a target allocation above that percentage, indicating many institutions may be investing more heavily in infrastructure moving forward. Notable funds include Global Infrastructure Partners II, which closed at \$8.25 billion in October 2012 and Stonepeak Infrastructure Fund, which specializes in middle-market infrastructure investments in North America. Stonepeak has already raised \$1.17 billion, well above its \$1 billion target, and expects to close by the end of 2013. While funding remains an issue for infrastructure projects, an improvement in the economy is likely to result in more readily available capital in the future.

Funding has been moving from new systems and heavy construction projects to favor maintenance, repairs and upgrades employing cost-saving technologies.

TECHNOLOGY COMPANIES ATTRACT BUYERS

Another trend driving M&A activity is the growing focus on infrastructure-related technology investments. Although many of the sectors within the industry are experiencing an active M&A environment, companies with innovative technologies are of particular interest to buyers as funding moves from new systems and heavy construction projects to favor lower-cost maintenance, repairs and upgrades employing cost-saving technologies. A number of small and mid-size businesses offer well-established technologies as well as the ability to develop new solutions to help update the aging infrastructure. Companies that provide products and services aimed at infrastructure modernization and maintenance stand to thrive in the coming years as the funding gap increases and the need to address backlogged projects becomes urgent.

Increasingly, the industry will look toward technological advancements and new business models to provide solutions that help to minimize costs and environmental impacts while maximizing efficiency and benefits. Examples of such developments include advanced metering, distribution automation, sensors, measurement devices, software and asset management systems, which help to reduce costs, increase efficiency, provide better customer service, cut down on waste and streamline processes.

Technology-driven acquisitions have been prevalent in 2013. For example, ONICON Inc., a provider of energy measurement systems and flow-metering devices, was acquired by private equity firm Harbour Group. Harbour Group believes ONICON's proprietary technology will allow customers to address concerns relating to energy costs and environmental impacts by maximizing the efficiency of their HVAC systems. Another notable deal was the acquisition of solar-power company Miasole by Chinese renewable energy company Hanergy, representing its second acquisition of a solar company. In the water infrastructure sector, Badger Meter, which provides flow measurement and control products, acquired Aquecue, Inc., a startup that provides water management data software. Analytics is now a popular area of investment for water utilities, and Badger Meter plans to use Aquecue's technology to enhance its AMA advanced metering analytics system and to introduce new cutting-edge products.

As funding has been shifting from new systems and heavy construction projects to maintenance, repairs and upgrades employing cost-saving technologies, industry watchers believe that smart technology is poised to cause major disruptions to existing business models. Technology used to manage aging equipment will not be simply a one-time need; ongoing testing, tracking, mitigation and replacement & refurbishment will also be needed, driving potential growth for technology suppliers for years to come.

These trends are producing significant opportunity for middle-market companies in the infrastructure industry. M&A activity in the space is poised to increase long-term, as both strategic and financial buyers seek to capitalize on the growing infrastructure market. The following table provides a sampling of recent transactions in the infrastructure industry.

RECENT INFRASTRUCTURE M&A TRANSACTIONS

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
Aug-13	Contact Network, Inc.	PEG Bandwidth LLC	Provides telecom services through broadband, infrastructure, and intelligent transportation systems (ITS).	-	-	-
Aug-13	Northwest Signal Supply, Inc.	Signal Group, Inc.	Manufactures traffic control hardware, software, controllers, cabinets and structural poles in the United States.	-	-	-
Jul-13	HDR Sharon Greene + Associates	HDR Engineering, Inc.	Provides strategic transportation economics, infrastructure finance and transportation planning and consulting services.	-	-	-
Jul-13	Utility Support Systems, Inc.	TRC Companies Inc. (NYSE:TRR)	Provides design, inspection, right-of-way acquisition, consulting and mapping services to the utility industry.	-	-	-
Jun-13	Fathom Platform	XPV Capital Corporation	Offers technology platforms for advanced metering infrastructure and other services to municipalities and private utilities.	-	-	-
Jun-13	RAE Systems Inc.	Honeywell Analytics Ltd.	Manufactures sensors and measurement products for oil and gas, industrial safety and environmental remediation applications.	\$340.0	3.2x	-
Jun-13	W.E. Stilson Consulting Group, LLC	GPD Group, Inc.	Offers consulting engineering services such as roadway, traffic and water/wastewater engineering, as well as construction inspection.	-	-	-
May-13	EnergySolutions, Inc.	Rockwell Holdco, Inc.	Provides nuclear services to government and commercial customers including power and utility companies.	\$944.8	0.5x	4.5x
May-13	TriTek Solutions, Inc.	Perficient Inc.	Delivers content management and business process management solutions to energy and utility companies and other clients.	\$18.5	1.0x	-
Apr-13	Knowledge Reservoir, LLC	RPS Group plc	Provides geoscience and engineering consulting and resourcing solutions for energy companies.	\$20.0	0.8x	-
Apr-13	Lakeland Processing, Wastewater Treatment	Ridgeline Energy Services (USA), Inc.	Provides buildings, tanks, pipelines, mechanical and electrical equipment, improvements and construction for water treatment.	\$3.6	-	-
Apr-13	MobileNet, Inc.	ORBCOMM, Inc.	Provides satellite based custom mobile data monitoring hardware and software to the utility, rail and construction industries.	\$6.0	-	-
Apr-13	Aquacue, Inc.	Badger Meter Inc.	Provides water management technologies and services including leak detection, rapid monitoring and diagnostics.	\$14.0	-	-
Apr-13	Kentrox, Inc.	Westell, Inc.	Provides site monitoring, management and control solutions for telecom carriers, network providers and utility companies.	\$30.0	1.0x	-
Mar-13	Cascade Corporation	Toyota Industries Corporation	Manufactures materials handling load engagement devices for lift truck and construction industries, including infrastructure and utility.	\$703.6	1.3x	8.4x
Mar-13	Bay Townes Geotechnical, LLC	Landau Associates, Inc.	Provides geotechnical engineering services such as construction monitoring and bridges, roadways and water engineering.	-	-	-
Mar-13	Instrument Transformer Equipment Corporation	Falfurrias Capital Partners	Manufactures instrument transformers for revenue metering and protective relaying in electrical and electric utility industries.	-	-	-
Feb-13	AVIDWireless, LLC	Numerex Corp.	Delivers remote monitors, sensors and controllers for applications such as oil and gas, energy management and water monitoring.	-	-	-
Feb-13	Robbins & Myers Inc.	National Oilwell Varco, Inc.	Manufactures equipment and systems for oil and gas exploration, pipeline transmission infrastructure, and wastewater treatment.	\$2,439.2	2.4x	9.4x
Feb-13	The Shaw Group, Inc.	Chicago Bridge & Iron Company N.V.	Provides technology, engineering, maintenance, manufacturing and restoration services to clients such as oil companies and utilities.	\$3,382.2	0.6x	20.4x
Feb-13	Huron Consulting Company, Inc.	Nobis Engineering, Inc.	Offers civil engineering and site development services and upgrades for roadways, utilities, water/wastewater and aging infrastructure.	-	-	-
Jan-13	Allpoint Systems, Inc.	Autodesk, Inc.	Develops software that facilitates underground mapping and inspection, as well as structural engineering.	-	-	-
Jan-13	Johnson Screens, Inc.	Bilfinger SE	Manufactures industrial filters, water well screens and other equipment for water/wastewater, oil & gas, and energy industries.	\$133.0	0.6x	-
Jan-13	MiaSole, Inc.	Hanergy Holdings Group Company, Ltd.	Manufactures photovoltaic solar panels for rooftop and ground mount installations for utilities and independent power providers.	\$30.0	-	-
Jan-13	Irth Solutions, Inc.	Crane Group Co.	Provides asset management solutions to gas, oil, electric, telecommunications and other utility companies.	-	-	-
Jan-13	MicroCoal Inc.	Carbon Friendly Solutions, Inc.	Commercializes the use of microwave energy to transform coal into higher quality industrial materials for coal-fired electric utilities.	\$4.1	-	-
Jan-13	ONICON Incorporated	Harbour Group	Manufactures customized flow meters and energy measurement systems for HVAC, municipal water and process applications.	-	-	-
Jan-13	Westinghouse Electric Company, LLC	Toshiba Nuclear Energy Holdings Inc.	Specializes in the technology of nuclear power plants and component manufacturing, serving power-related industries.	\$7,990.3	-	-
Jan-13	CustomCare Water Technologies, Inc.	Water-Right Inc.	Manufactures water treatment systems, and updates and upgrades existing systems.	-	-	-
Jan-13	ExperTune Inc.	Metso Corp.	Develops industrial software that maximizes productivity and efficiency and reduces waste in the process industries.	-	-	-

LTM = last twelve months; EV = enterprise value
Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

Mean	\$1071.6	1.3x	10.7x
Median	\$30.0	1.0x	8.9x
Harmonic Mean	\$15.9	0.9x	8.1x

CAPSTONE PARTNERS: A SAMPLING OF COMPLETED INFRASTRUCTURE TRANSACTIONS

Capstone Partners maintains an active Infrastructure practice in the middle market, having represented clients across various specialties including water, roadways, geo-technology, utilities, energy, solar and communications. This focus allows Capstone to provide infrastructure companies with real-time transaction feedback and immediate access to key decision makers among the industry’s most active acquirers and investors.



has been acquired by




has recapitalized with




has been acquired by




has been acquired by




has been acquired by




has recapitalized with




valuation & financial advisory

BOSTON IRRIGATION SUPPLY COMPANY



has been acquired by




has been acquired by




has been acquired by



Jarex Distribution LLC

has been acquired by




has recapitalized with




has been acquired by




has been acquired by

CASTLE ISLAND PARTNERS, LLC

CONFIDENTIAL CLIENT

is pursuing a corporate sale and is currently in market

WATER DISTRIBUTION SYSTEM SOLUTIONS

THE INFRASTRUCTURE TEAM

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Ted is Managing Director and Head of the Central Region at Capstone, based out of Chicago. Prior to Capstone, Ted ran the corporate finance practice in the Central region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 20 years of experience, having completed strategic sale and recapitalization transactions across a variety of industries. Ted is a frequent public speaker on the topic of business exits and recapitalizations of privately owned businesses. In 2008, Ted was recognized by The M&A Advisor for the Cross-Border Middle-Market Deal of the Year. In 2009, another of his transactions was recognized as the Middle-Market M&A Financing Deal of the Year and in 2011 he was recognized for lead-managing the Middle-Market Deal of the Year. Previously, Mr. Polk worked at Valuometrics, Inc. and in the Corporate Banking Group at The Bank of New York. Ted received his BSBA degree from Georgetown University and MBA from the University of Chicago. He is a Chartered Financial Analyst (CFA), a Series 7 and 63 Registered Securities Representative, and a Series 24 Registered Securities Principal.



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Lisa has 15 years of experience in the investment banking industry, primarily focused on advising private business owners in liquidity related transactions. Presently, Lisa is a Director in Capstone's Chicago office, supporting the management of the Central Region. Prior to Capstone, Ms. Tolliver worked in the Capital Strategies Group at Morgan Stanley Smith Barney, where she was involved in the evaluation, marketing and closing of numerous transactions across a wide range of industries. Specifically, Lisa has developed expertise within various industries including government and defense, software and technology, manufacturing, and outsourced business services. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.



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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice in New York and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading international investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Infrastructure sector. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

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