# CLAIRVEST GROUP TAKES A MEASURED LOOK AT ENVIRONMENTAL MARKETS & BUSINESS MODELS BUILDING PERSPECTIVE & PORTFOLIO

**Clairvest Group Inc.**, a top-performing private equity firm with over $4 billion of capital under management, seeks to invest and partner with heavily invested management of engineering, consulting, and environmental firms to help build strategically significant businesses. Clairvest supports firms as they grow their companies, make acquisitions, and build enduring value. As an invested partner by management's side, Clairvest is flexible in ownership structure (with a preference to being a non-control investor). Clairvest wishes to invest in a growth-oriented firm and believes in fundamental value creation while embracing the entrepreneurial spirit of its partners.

Michael Castellarin, Managing Director. Mr. Castellarin and has been with Clairvest since 2002. He oversees industry research, investment origination, structuring and execution with a focus on waste management, environmental services, facilities services and industrial services. He is on the Board of Directors for Star Waste. Prior to joining Clairvest, he worked as a management consultant at Monitor Company and as a marketing manager for the National Hockey League Players' Association.

Michael Andrisani, Vice President. Mr. Andrisani joined Clairvest in 2020 and participates in all areas of the investment process. Michael supports investment origination (with a focus on the environmental consulting and engineering industry), due diligence, transaction structuring, deal execution and portfolio company support. He also assists portfolio companies with the execution of growth plans, operational improvements, KPI tracking and overall value creation. Currently, Michael is on the Board of Directors for Delaware Park.

**EBJ: Can you describe the current investment landscape for private equity within environmental consulting?**

Clairvest: Private equity has been increasing its investment activity in the environmental consulting industry. Over 80% of transactions in recent years involving firms in the ENR Top 500 have been, in one way or another, driven by private equity. In 2016, only 4% of all firms were private equity owned; that number is now closer to 15%. The data shows private equity is increasingly attracted to the industry and its capital and involvement is certainly a key reason behind M&A activity hitting all-time highs in recent years.

There are several reasons why private equity is interested in the industry. Most of these reasons are driven by positive industry fundamentals; but there are additional structural shifts within the private equity landscape that make the environmental consulting industry attractive. The fundamentals in the industry are attractive for several reasons . Firstly, there is optimism around strong organic growth. Numerous environmental sub-sectors are experiencing attractive growth (for example, due to increased regulation such as PFAS), which is further bolstered by the infrastructure spending that has started flowing from the IIJA. Secondly, private equity is attracted to the industry's track record of inorganic growth strategies ("add-on" or "bolt-on" acquisitions to a "platform"). The environmental consulting interesting remains relatively fragmented and acquisition strategies can be enticing. M&A can be used to fulfill strategic objectives (add new services, geographies, clients, and employees) while also enhancing the valuation of the firm (larger firms often command higher valuation multiples). Thirdly, private equity firms have resources and expertise which can complement those of an environmental consulting firm's executive team (for example, improving financial and operating measurement, management, raising capital, and completing acquisitions). These three reasons ultimately culminate in private equity believing that above average equity returns can be generated in the environmental consulting industry.

From a structural shift perspective, private equity firms are increasingly looking for new investment opportunities. Given the explosive growth in the number of private equity firms and the capital they have raised, it is no surprise that private equity is looking across industry sectors to deploy capital. Historically, industries that would have been seen as off limits to private equity, such as engineering / consulting with its human capital centric business model, are now seen as investable and attractive. Additionally, some private equity firms are under pressure from limited partners (the investors who provide much of the capital for private equity firms to invest) to invest in ESG friendly industries. Environmental consulting is surely one such industry.

**EBJ: What are the key trends you've observed in the environmental consulting industry over the past few years?**

Clairvest: The environmental consulting industry has been dynamic over the past few years and there are several trends we have observed. As noted, demand and revenue growth has been strong, and many firms are reaching all-time highs in terms of revenue and backlogs. For many, there is more work than consultants and engineers can complete under reasonable timelines. Therefore, firms are pushing healthy price increases through given the supply-demand imbalance. This is noteworthy because the environmental consulting sector has a reputation of historically being reluctant to pass through above-inflation price increases. Relatedly, the industry is plagued by a shortage of talented engineers and consultants. The competition for talent can be fierce, and as a result, salaries are increasing at or above general inflation (and for some firms, salary increases have outpaced their price increases). The quantity of work and shortage of labor has highlighted the need for improved efficiency and technology enhancement. As such, more and more firms are investing in technology, further bolstered by recent AI innovations. Like many others, we are confident technology will have an outsized impact on this industry in the coming decade. Lastly, M&A and the involvement of private equity in the industry has completely changed the competitive landscape. Increasingly, leading firms are no longer solely relying on organic growth to meet internal objectives but are also focusing on inorganic M&A strategies to create both a more strategic business and opportunities for employees. Firms without the necessary financial resources often find it difficult to compete for acquisitions and cannot move fast enough to capitalize on such opportunities.

**EBJ: What specific criteria are you currently looking for when evaluating potential acquisition targets within the environmental consulting industry? How are you approaching it differently than the way you've done it in the past?**

Clairvest: We are focused on three areas. Firstly, we are looking to partner with heavily invested management teams that have demonstrated a strong track record of growth and performance. In addition to above average historical financial performance, we look for a positive and deep-rooted firm culture and a willingness by senior management to "rollover" a significant amount of equity value in a transaction with Clairvest. Secondly, we are looking to invest in firms focused on end-markets poised to benefit from significant tailwinds (for example, energy, water, and transportation). Thirdly, we look to partner with firms with a clear strategic direction – there is clear evidence they have made strategic decisions about where to focus and where not to focus their limited resources. These firms know their strengths and have a vision of what they want to become. They tend to have expertise in certain capabilities or markets which affords the ability to charge premium rates and achieve above average growth and profit margins.

Given the recent macroeconomic backdrop and shifts in the industry, we are paying closer attention to two factors. Given the shortage of labor in the industry and wage pressures, we are focused on a firm's ability to charge premium rates and pass through cost increases to clients. Without this ability, margins are likely to erode in today's climate. Additionally, we want to understand a firm's technology strategy and how that dovetails with its contract/billing strategy. Increasingly, firms are using software and technology to achieve efficiencies and earn higher margins on lump sum or fixed fee contracts.

**EBJ: How do you look at firms with a history of Environmental expertise and how they are transitioning into energy transition, climate resilience or other opportunities driven by climate change?**

Clairvest: We look for firms who cater to end-markets with strong growth tailwinds; for example, capitalizing on the energy transition and resultant impact on electricity grids nationwide (as noted above). When it comes to transitioning into these end markets, we are supportive if it has been, or will be done, in the right way. What that means depends on the situation and the firm, its leaders, its capabilities and its culture. It could mean the thoughtful hiring of a strategic executive to grow into a new segment organically, or it may mean a highly strategic and well thought out acquisition. A firm cannot change overnight, and so any such transition usually requires careful planning, time, and buy-in from the executive team through to employees.

**EBJ: We have seen more minority investments into environmental consulting firms. Is that a model that you embrace as a first choice or what is your preferred outcome for an ownership structure if you are the first investor coming in with an employee-owned platform?**

Clairvest: Clairvest was founded in 1987 by entrepreneurs, not corporate finance professionals, and its mission was - and remains - to invest alongside business owners to help them achieve their growth ambitions. Therefore, from our founding we have embraced non-control minority equity investments, and it makes up more than 50% of the investments we have made since 1987. We place significant importance and value on achieving aligned partnerships with our executive management teams who remain heavily invested in their business. Based on our discussions in the environmental consulting and engineering sector to-date, we find that our experience and desire to make non-control minority equity investments resonates and fits well as many firms are owned by leaders who wish to remain independent. Our flexible equity investing approach can represent a terrific option for such firms.

**EBJ: Your experience in the environmental industry has historically been around solid waste. Do you see any similarities with broader Environmental Services or specifically Environmental Consulting & Engineering firms?**

Clairvest: While there are significant differences between solid waste management and other environmental service sectors, including environmental consulting and engineering, Clairvest is committed to investing in environmental services outside of solid waste management primarily for two reasons. Firstly, there are numerous growth drivers which we believe are resilient and which help drive growth rates above GDP. Secondly, we believe Clairvest's strategy of investing alongside owner operators, often in a non-control equity position, to help build strategically significant companies resonates very well across privately owned businesses in environmental services.

**EBJ: In which ways has infrastructure spending provided value to environmental companies in your portfolio?**

Clairvest: Infrastructure spending has largely had an indirect, but positive, impact on partnerships in our environmental services practice. For example, we are partners with an operations and maintenance (O&M) provider to the renewables industry, and because of increased infrastructure funding, there has been increased spending on transmission capability and grid hardening. With improved transmission infrastructure comes a better ability to generate power of all types (such as renewable energy). As such, infrastructure spending has significantly improved the market outlook and revenue potential of our O&M provider as we continue to believe the installed base of renewable projects will grow over time. In the waste management industry, in select markets, we are seeing a modest increase in construction and demolition waste volume which is, in part, helped by infrastructure-related construction projects.

**EBJ: What growth do you see for the environmental industry due to BIL spending over the next 5 years?**

Clairvest: We continue to believe that environmental services centered around infrastructure (e.g., engineering, consulting, construction, etc.) will have a robust five-year runway. In addition to numerous tailwinds, which are well documented, such as aging transportation infrastructure, the desired energy transition, and heightened focus on water contaminants, unallocated IIJA funding will help propel further growth. Outside of broadband work, much of the funding remains unawarded. As such, we continue to be bullish on environmental services tied to infrastructure.

### *Clairvest Portfolio*

Amongst mutliple sectors, Clairvest has been investing in Environmental Services for nearly two decades, mostly in the waste management industry with 9 platform investments (including 7 exits) and 112 tuck-in acquisitions completed with platform partners. Current protfolio companies in solid water include:

- **Star Waste** (dba Boston Carting Services) an independent solid waste management company servicing the Greater Boston Area with a focus on providing residential, commercial and roll-off container waste collection. The Company also operates a construction and demolition material recovery facility located in North Andover, Massachusetts.

- **Red Oak Sanitation** a waste and recycling company based in Cumming, Georgia with a focus on providing waste collection services to residential and commercial customers in the Atlanta MSA.

An investment in renewable energy is **Novasource,** a leading solar operations and maintenance provider built through the acquisition of the O&M divisions of SunPower and First Solar, and combining them with SunSystem, an entrepreneurial led company. SunPower and First Solar are the recognized quality leaders in maintaining Commercial and Utility scale solar plants, and SunSystem is the leading residential player. ☐

# UNITED FOR INFRASTRUCTURE MARKS HALFWAY POINT OF IIJA WITH MORE TO COME

**United for Infrastructure** (UFI) is a project of Accelerator for America Action. For more than a decade, UFI has advocated for investment in infrastructure and convened leaders from the business, labor, government, and policy sectors through its signature week of action: Infrastructure Week.

***Ross van Dongen*** serves as the Director and leads Accelerator for America's infrastructure initiatives and the organization's intergovernmental affairs. Ross tracks federal infrastructure opportunities for local, regional, and state governments, especially as it pertains to advancing underserved communities' economic mobility and interconnectivity. Ross works closely with federal agencies to increase communication with mayors, local leaders and their teams to ensure a more productive dialogue across all layers of government. Before joining Accelerator for America in 2019, Ross worked on Beto O'Rourke's campaign for US Senate in Texas managing the Dallas Headquarters. Originally from the midwest, Ross received his Bachelor's Degree from Indiana University.

**EBJ: Can you provide an overview of United for Infrastructure?**

Goldwater: United for Infrastructure was founded in 2013 to advocate for infrastructure investment and raise awareness about the importance of what became the Bipartisan Infrastructure Law (BIL).

**EBJ: In which ways has United for Infrastructure (UFI) advocated for investment in infrastructure?**

Goldwater: UFI provides a space to convene, encourage and enhance dialogue among policymakers, industry leaders, and the public to help shine a light on the importance of prioritizing transformative infrastructure projects in our communities.

Our signature "National Infrastructure Week" events have served as a platform to bring voices, big and small, together to highlight how investments in infrastructure impact all Americans by helping to make our communities safer, healthier, and more interconnected.

**EBJ: What were the major highlights from Infrastructure Week 2024?**

Goldwater: In 2024, together with UFI's Steering Committee, Partnership Network, and organizations around the country, we held our 12th Annual Infrastructure Week, which featured more than 60 events showcasing our nation's roads, rails, bridges, ports, energy grid, water systems, and broadband.

One of the main topics of focus this past year was acknowledging the halfway point of the Infrastructure Investment and Jobs Act (IIJA) and its critical implementation efforts from the perspectives of Washington, DC policymakers, state and local leaders, the business community, and others. We held signature events on both coasts, which were programmed to spotlight the challenges and opportunities ahead for our nation's energy, water, and transportation infrastructure, providing leaders a space to share their experiences, best practices, and predictions for the future of American infrastructure.

**EBJ: What are your comments in regards to Rural Infrastructure?**

Goldwater: IIJA funds have touched communities in every area of the country – urban, suburban, rural and tribal. The law's formula and discretionary programs are helping to bring essential surface transportation and utility infrastructure to rural communities to allow for future investments. Rural airports that serve as the lone linkages that connect communities with other regions have received tremendous support to build new runways and expanded terminals.

Our rural communities still have a long way to go to have the same access to healthcare and essential services that other communities benefit from. To achieve this, it is critical for broadband investments to continue. IIJA has provided funding for