



Capstone Partners

WATER INFRASTRUCTURE

Q2 2016

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MERGER & ACQUISITION ACTIVITY

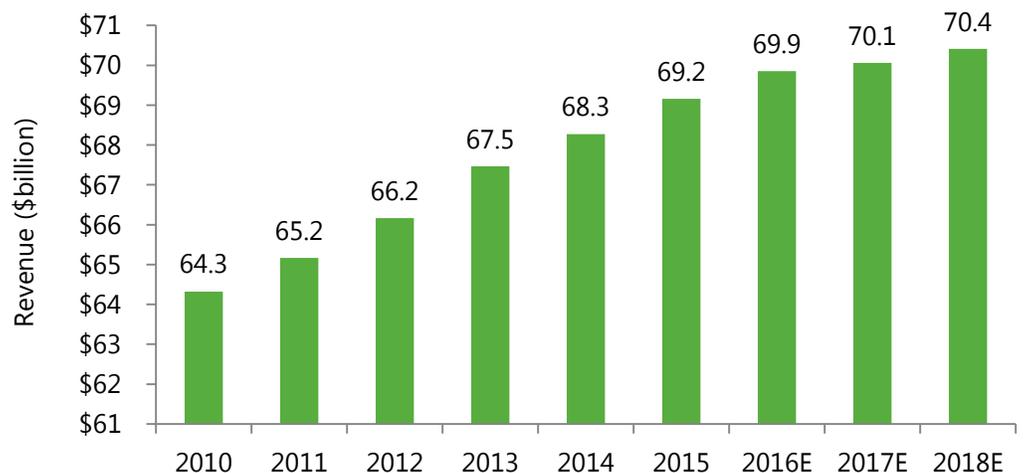
Merger and acquisition activity has remained strong in the Water Infrastructure industry as buyers seek to broaden their technology offerings and look to create operating efficiencies through economies of scale. Strategic and financial players are active buyers in the industry, attracted to its steady growth and healthy industry fundamentals. Overall, the industry has experienced increased deal activity in 2016 with 36 transactions announced through May, compared with only 27 for the same period in 2015. Through May 2016, strategic buyers accounted for 91.7% of all acquisitions, on par with levels seen in 2015. Notably, Stantec's acquisition of MWH Global for \$793.0 million is indicative of the trend among strategic buyers to expand their global presence and seek operating efficiencies. The premium valuation of 10.3x EBITDA that MWH received reflects the heightened multiples paid throughout the industry in 2016. For middle market transactions with disclosed financial information, the average EBITDA multiple is presently 8.5x, up from 7.3x in 2015.

INDUSTRY OUTLOOK

Macroeconomic growth and persisting droughts are forcing analysis of the infrastructure needs for supplying water. According to the US Census, the US population is expected to expand by an average of 2.6 million per year through 2020, which inevitably will cause aggregate water consumption to continue increasing and help drive industry growth in a variety of sectors. Among other requirements, improving sensor, filtration and conservation technology provide opportunities for municipalities to address these evolving market needs. Companies that provide such critical technology enhancements should be able to capitalize on strong industry fundamentals.

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Water Infrastructure Industry Revenue



Source: IBIS World, Capstone Partners research

KEY TRENDS AND DRIVERS

There are a number of drivers and trends that have had a significant impact on industry growth as well as M&A activity within the Water Infrastructure industry. Below are a few of these factors:

- ▶ **Filtration technology improves and drives M&A activity** – Water purification and desalination are important processes used by countries around the world to clean and reuse water. Established processes, such as reverse osmosis, have continued to evolve, with upgraded membranes and process configurations making them more efficient and cost effective. These systems are in strong demand from buyers as evidenced from LG's \$200.0 million acquisition of NanoH2O, a developer of nanotech reverse osmosis technology, in 2014. More recently, Evoqua's acquisition of Neptune-Benson and Consolidated Water's acquisition of Aerex highlight the growing importance of filtration technology to potential buyers. New technological advancements will have an impact on this industry as evidenced by Graphene. Graphene, a lab-created single layer of graphite, has been tested as a possible filtration material as its tight atomic bonds make it impermeable for nearly all gasses and liquids, except water molecules. Lockheed Martin's Perforene Membrane is one such graphene product and promises to increase membrane flux by 500.0%, decrease energy consumption by 10.0% - 20.0% and reduce fouling by up to 80.0%.
- ▶ **Increased sensor affordability and expanded data applications** – The trend towards large smart-grid systems means that sensors must collect mass amounts of data. As a result, scale is more important than sensor precision to drive insights. Innovation has made sensors cheaper, which makes smart-grid systems increasingly affordable. Sensor providers offer real-time monitoring and analytic services to optimize distribution, protect systems and predict future trends. These benefits have become so important that despite unfavorable drought conditions and a decrease in crop yield, farmers are still opting to spend on sensor technology. In addition, water utilities spend significant resources to monitor catchments, sewer systems and water distribution networks for deviations in water quality. Demand for water analysis instrumentation products is expected to grow by a CAGR of 12.9% through 2020, reaching \$3.6 billion in market value. This rapid rise in growth will provide opportunities for new entrants and established providers to grow organically and through acquisitions. In addition, water infrastructure companies which have successfully integrated sensor technology will be strong acquisition targets.
- ▶ **Water scarcity and low precipitation decreases supply while increases demand** – Prolonged droughts in the Western US have threatened water supplies for industrial, agricultural and consumer use and increased demand for alternative sources. Public utilities have responded by increasing rates to curb consumption and by consolidating to leverage economies of scale and diversify the geographical reach of services. This is enabling utilities to better absorb the risk associated with adverse weather and spread out the cost of supporting underperforming supply systems.

NOTABLE WATER INFRASTRUCTURE TRANSACTIONS

Several notable transactions have already been completed or announced in the Water Infrastructure industry through Q2 2016. Selected transactions are outlined below, followed by a more comprehensive list on the following table.

- ▶ **MWH acquired by Stantec (March 2016)** – MWH Global (MWH), a designer of large water infrastructure projects, was recently acquired by Stantec, a Canadian engineering firm, for an enterprise value of \$793.0 million. MWH expands Stantec's global network by 187 offices, and will deepen Stantec's expertise in the Water Infrastructure industry. Previously, Stantec's experience in this industry had been limited to smaller, local water utilities projects. MWH worked on the Panama Canal project and was recently awarded a \$100 million contract to replace a reservoir and pump station for Denver Water, which will expand Stantec's capabilities with larger projects. MWH's expanded network of global offices and experience will enable the combined company to be a market leader in providing engineering services in the Water Infrastructure industry.
- ▶ **Neptune Benson acquired by Evoqua (March 2016)** – Neptune Benson, a manufacturer of filtration products for municipal, industrial and recreational water markets, was recently acquired by Evoqua Water Technologies. Terms of the deal were not disclosed. Neptune Benson has become a leader in commercial filtration and ultra-violet disinfection solutions. The acquisition complements Evoqua's existing markets served including a focus on municipalities and industrial customers. Ron Keeting, Evoqua's CEO, commented, "Neptune Benson's filtration and disinfection products have been well regarded in the industry and complement Evoqua's existing businesses and markets served extremely well. This addition is a natural fit for us and consistent with our growth plan to double our business by the end of 2021."
- ▶ **Telog acquired by Trimble (November 2015)** – Telog Instruments (Telog), a leader in wireless water infrastructure monitoring solutions, was recently acquired by Trimble. Terms of the deal were not disclosed. Telog's suite of remote monitoring, analytics and data acquisition systems provides automation in collecting data on flow rates, reservoir levels, water quality, pump performance and sewer overflows. Combined with automated metering infrastructure, Telog's technology creates smart-water networks that improve water conservation and drinking quality. Trimble's various wireless technologies are used in industries including construction, agriculture, fleet management and public safety. The acquisition of Telog expands Trimble's Water Division and advances their smart-water strategy.
- ▶ **Superior Plus acquires Canexus (October 2015)** – Superior Plus Corporation (Superior), an energy and specialty chemical producer, has recently entered into an agreement to acquire Canexus Corporation (Canexus) in a deal valued at \$752.6 million. The deal will expand Superior's ERCO division, which focuses on producing specialty chemicals for various industries. While Canexus primarily serves the Pulp & Paper industry, it also produces a significant amount of chlorine for use in water treatment. The synergies between these companies are expected to deliver \$35.0 million of cost savings per year within three years of closing, and will also position the combined company to capture future growth opportunities.

WATER INFRASTRUCTURE: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
05/10/16	Heritage Village Water	Connecticut Water Service	Provides water supply and treatment services.	\$20.9	-	-
04/29/16	Village of Ransom Water	Illinois American Water	Provides a drinking water distribution system.	-	-	-
04/22/16	Hydromax	Warren Equity	Provides data collection to locate and assess the condition of aging water and wastewater systems.	-	-	-
04/20/16	Four Water Assets	Aqua America	Distributes water.	-	-	-
04/07/16	Westgate Utilities	Utilities of Pennsylvania	Offers water and wastewater services.	-	-	-
04/05/16	MHD Technology	Neptune Industries	Develops water transportation and desalination technology.	-	-	-
03/29/16	MWH Global	Stantec	Engineers and manages water, hydropower and transportation projects.	\$793.0	0.7x	10.3x
03/15/16	Neptune Benson	Evoqua Water	Manufactures filtration and disinfection products for recreational, industrial and municipal water markets.	-	-	-
03/07/16	Murtagh Municipal	Morrison Maierle	Offers engineering services for various water systems and components.	-	-	-
03/02/16	Clearon	Hui Yu Xin American	Manufactures and distributes alkalis and chlorine products.	-	-	-
03/02/16	MCC Control	S.J. Electro	Offers PLC control panels, SCADA systems and custom automated reporting for the water industry.	-	-	-
02/22/16	Texas Water Alliance	Guadalupe-Blanco River	Supplies and distributes water.	\$31.0	-	-
02/16/16	Aerex	Consolidated Water	Manufactures membrane systems and vessel products for the water and wastewater industry.	\$15.1	0.8x	-
01/22/16	General Ecology	Loar	Manufactures drinking water purification systems.	-	-	-
01/20/16	Water Transfer	Fluid Delivery	Provides water transfer equipment to customers in the Permian Basin.	-	-	-
01/19/16	Phillips Services	Natural Systems Utilities	Provides operations and management services for water and wastewater treatment facilities.	-	-	-
01/04/16	Superior Water	Aqua America	Operates as a water utility company.	-	-	-
01/04/16	Underground Solutions	Aegion	Provides infrastructure technologies for water, sewer and conduit applications.	\$85.0	-	-
12/31/15	Carbonair	ProAct	Designs custom groundwater treatment equipment.	-	-	-
12/29/15	Captain's Cove Utility	Aqua Virginia	Offers water utility and wastewater services.	-	-	-
12/24/15	M2 Renewables	Hydro International	Provides technology for the treatment of domestic wastewater.	\$11.0	-	-
12/22/15	Fairview Wastewater	Pennsylvania-American Water	Comprises a wastewater system.	\$16.8	-	-
12/22/15	Seldon	Carbon Block	Develops drinking water filtration solutions.	-	-	-
12/16/15	Redtail Saltwater Disposal	BNN Water	Operates a saltwater disposal and fresh water system.	\$75.0	-	-
12/16/15	Ultra Filtronics	George T. Wilkinson	Provides water purification solutions.	-	-	-

WATER INFRASTRUCTURE: SELECT M&A TRANSACTIONS (CONTINUED)

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
12/08/15	Aquaterra	Cott	Produces bottled drinking water and water filtration systems in Canada.	\$45.6	-	-
12/04/15	Green Compass	Patriot WasteWater	Transports, disposes and processes non-hazardous waste and wastewater.	-	-	-
12/01/15	Region-X	Quench USA	Provides ion exchange regeneration services to water treatment service providers.	-	-	-
11/17/15	A and W Technologies	US Water Services	Provides water treatment products and services.	\$9.0	-	-
11/16/15	Big Rock Springs	Cott	Provides water delivery services.	-	-	-
11/11/15	Telog Instruments	Trimble Navigation	Provides water infrastructure monitoring and management systems.	-	-	-
11/04/15	Infiltrator Water	Ontario Teachers' Pension Plan	Manufactures wastewater systems for homes.	\$30.0	2.8x	-
10/23/15	ChemQuest Chemicals	Edgewater Capital	Offers custom blending and toll processing of water treatment and industrial chemicals.	-	-	-
10/21/15	Five Water Systems	Pennsylvania-American Water	Comprises five water and wastewater systems.	-	-	-
10/06/15	Canexus	Superior Plus	Produces sodium chlorate and chlor-alkali products for the pulp, paper and water treatment industries.	\$752.6	1.7x	9.9x
09/29/15	AQUA TERRA	Re/Spec	Provides environmental consulting and water resources engineering.	-	-	-
09/24/15	Clearlogx	H2O Innovation	Manufactures water treatment, chemical feed automation and control products.	-	-	-
09/24/15	Outreach Technologies	Environmental Science	Provides radiochemical analysis and analytical services for the water industry.	-	-	-
09/21/15	Utility In North Central Indiana	Indiana American Water	Operates a water utility company.	-	-	-
09/18/15	Union Hill Water Supply	Aqua Texas	Distributes and supplies water in Texas.	-	-	-
08/31/15	Tieco	SiteOne Landscape	Distributes irrigation, landscape, well drilling and pump products.	-	-	-
08/31/15	Va Consulting	Stantec	Provides engineering consulting for water resources, transportation and land surveying.	-	-	-
08/31/15	Klean Waters	Patriot Environmental	Provides non-hazardous water treatment and disposal.	-	-	-
08/17/15	United Utilities	Badger Meter	Distributes water and gas metering solutions.	-	-	-
08/13/15	Advance Hydrocarbon	Aqua Terra Water	Offers salt water hauling services.	-	-	-
08/07/15	Buckeye Pumps	Ohio Transmission	Distributes, services and repairs industrial and municipal process pumps.	-	-	-
07/20/15	BaySaver	Ads Ventures	Manufactures storm water filtration and separation technologies.	\$32.0	2.9x	-
07/07/15	Delta Industrial Valves	The Weir Group	Manufactures knife gate valves.	\$47.0	-	7.6x
06/30/15	Key Chemical	Univar	Supplies commodity and specialty chemicals used for water and wastewater treatment.	\$18.0	-	-
06/25/15	Water Works of Alamance	Aqua North Carolina	Supplies and distributes water in North Carolina.	-	-	-

CAPSTONE PARTNERS: SELECT WATER AND INFRASTRUCTURE TRANSACTIONS

Capstone Partners maintains an active Water 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 information and immediate access to key decision makers among the industry's most active acquirers and investors.

2015
PROFESSIONAL
SERVICES DEAL
OF THE YEAR



THE M&A ADVISOR

Among the eight awards received last year, Capstone received the International M&A Advisor's 2015 Professional Services Deal of the Year for advising Wachs Valve and Hydrant Services (Wachs) on its acquisition by Pure Technologies (Pure). Wachs is a leading provider of flow control maintenance and support, leak detection and related asset management services to the US water sector. Through the acquisition, Pure, an international asset management company, will diversify their water business and broaden their client base.



has been acquired by




has been acquired by




has partnered with




has recapitalized with




has been acquired by




has been acquired by




has been acquired by




has recapitalized with




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advisory

**BOSTON IRRIGATION
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has been acquired by




has been acquired by




has been acquired by




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has been acquired by

**CASTLE ISLAND
PARTNERS, LLC**



has been acquired by



THE WATER 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 2015, he was recognized for lead-managing the International Professional Services deal of the year and in 2011 for lead-managing the Middle-Market Deal of the Year. Previously, Ted was also recognized by The M&A Advisor for lead managing the Cross-Border Middle-Market Deal of the Year and the Middle-Market M&A Financing 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.



Lisa Tolliver, Director
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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 water & infrastructure, government & defense, software & 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.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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Capstone Partners

World Class Wall Street Expertise. Built for the Middle Market