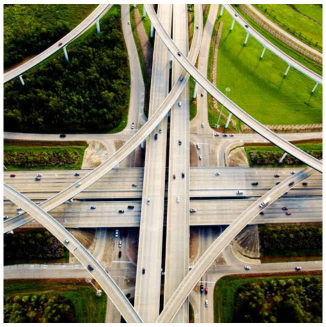

Infrastructure Bill Funding, Surge in Electric Vehicles Put Highway Safety Services Industry in Strong Position

The U.S. highway system is in disrepair—and has been for a long time. Despite billions spent each year, improvements to the country's roads and highways have lagged traffic volume growth, with congestion leading to health, safety, environmental, and economic challenges. But that picture is beginning to change.

Investing in Infrastructure Services

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Approximately $150 billion in incremental capital investments from 2021's Infrastructure Investment and Jobs Act (IIJA) and 2022's Inflation Reduction Act (IRA) are making their way to road and highway projects across the country. Simultaneously, the growing popularity of electric vehicles is necessitating vast improvements and upgrades, while government agencies at various levels appear poised to continue their historic commitment to roads, regardless of the larger economic environment.

In this, the first entry in William Blair's series "Investing in Infrastructure Services," our Supply Chain & Commercial Services team assesses how work around America's roads and highways in the coming years has positive implications for companies that provide road and highway safety services—and provides opportunities for investors eyeing what is still a highly fragmented space.

America's Decaying Roads

In its 2021 Infrastructure Report Card, the American Society of Civil Engineers gave a D grade to the nation's roads, with more than 40% rated in poor or mediocre condition. These problems are about more than potholes as motorists pay an extra $1,000 in wasted fuel and time each year.[1] Relatedly, the National Highway Traffic Safety Administration estimates that nearly 43,000 people died on American roads in 2021, a total that is significantly higher than in previous years.[2]

A primary cause of the condition of the nation's roads has been insufficient funding, with a $786 billion backlog of road and bridge capital needs, $435 billion of which was needed to repair existing roads.[3] Money from the IIJA has been put to work almost immediately, with individual states receiving more than $53.5 billion to support over 29,000 projects by September 2022.[4]

The 2021 IIJA may have set a new high-water mark for federal highway spending, but highway funding has long been a consistent public priority, even during economic downturns That's certainly true at the state and local levels, where voters approved 88% of ballot measures worth more than $23 billion toward revenue for future projects in 2022, more than in any of the previous three years.[5]

1. Source: American Society of Civil Engineers' 2021 Report Card for America's Infrastructure
2. Source: National Highway Traffic Safety Administration
3. Source: American Society of Civil Engineers' 2021 Report Card for America's Infrastructure
4. Source: American Road & Transportation Builders Association Website: Tracking Infrastructure Investment & Jobs Act Highway and Bridge Resources
5. Source: Transportation Investment Advocacy Center

Investing in Tomorrow's Infrastructure

In addition to the approximately $150 billion of incremental federal investment in road and highway infrastructure, the twin forces of the IIJA and the IRA provide more than $250 billion for adding electric vehicle (EV) charging stations, upgrading the country's electrical grid, shoring up underground infrastructure assets, improving public transit and railroad networks, and rolling out 5G. These investments will put more contractors on active roads and highways, where electrical assets are accessed, where fiber will be laid, where rail and transit intersect roads, and where EV charging stations must be installed.

One way to understand the enormous impact of these investments is the likely scale of the EV charging rollout. The Biden administration has set a goal of building 500,000 EV charging stations by 2030, which would require more than 12,000 installations per quarter until the end of the decade.[7] But the need for charging stations actually might end up being even greater, given the administration's other goal of 50% EV sales share by 2030.[8]

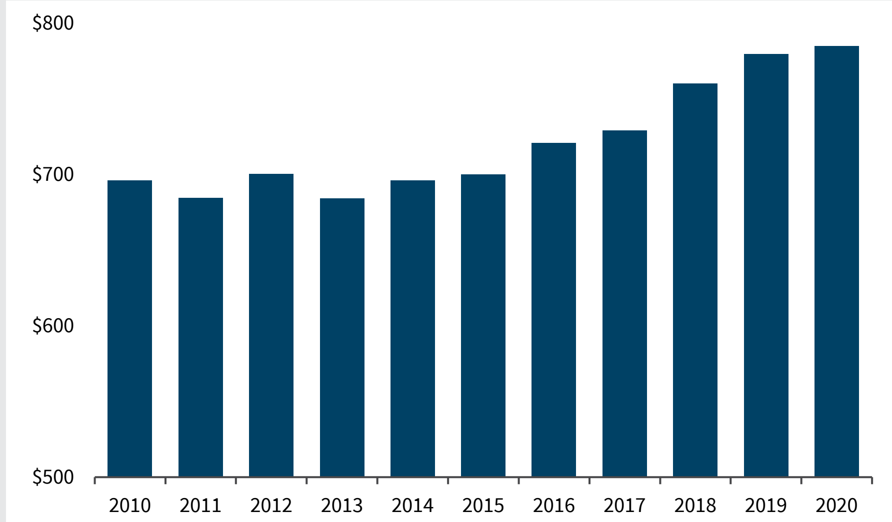
And beyond adding charging stations, electric cars are simply heavier and cause more road damage, which means more repair work to roads and highways.

Heightened Focus on Safety

All of the resulting activity will likely buoy the highway safety services industry, which keeps motorists, pedestrians, and workers safe by controlling traffic through a combination of dynamic traffic control, flagging services, smart work zones, distribution of specialty safety products, and pavement markings. While traffic safety services represent a low percentage of the overall cost of massive infrastructure projects, they have a high cost of failure, given the headline risks and costs associated with crashes. That makes spending on proper safety measures critical.

Highway Spending Was Trending Up, Even Before Recent Funding [6]

Federal, state, and local highway expenditures
(Spending in dollars per 1,000 people annually)



Another factor is the rise of autonomous vehicles and driver-assistance systems, both of which depend on safe, uniform, and well-marked roads. As a result, the markings must be more technically complex, wider, and applied more frequently—a boon to the pavement marking market and a way to make roads safer, particularly as as America's population ages.

A Massive—and Predominantly Local—Market

Sophistication and scale will be key for companies looking to navigate the shifting highway safety services market.

Almost as important is a company's ability to navigate a market where most decisions are made locally. Companies with successful bid strategies understand funding streams and project backlogs—and develop relationships with key decision-makers.

The landscape of companies is highly fragmented, composed of a diverse group from specialists to multidisciplinary players. Some have national profiles, while others operate only in specific localities. Benefits of scale matter in an industry where it pays to be able to flex labor and equipment across jobsites and procure equipment and materials through favorable partnerships with vendors. And while local and state governments may vary from project to project, many general contractors operate nationally, meaning a positive experience with a road safety provider in one region can lead to referral work in the next.

Given the converging forces outlined above, companies that provide highway safety services will likely continue to draw significant investor interest, with a strong appetite from both financial and strategic buyers. Investors seeking to get into the space should examine a company's safety records, on-time performance, procurement synergies, customer diversification, and financial stability.

If you'd like to learn more about the space and access detailed research, please feel free to contact our team or complete the form on our website to request more information.

In the second entry of this series, we'll discuss the critical role the massive engineering services sector, and its many overlapping disciplines, will play in overhauling America's infrastructure.

6. Sources: U.S. Census Bureau USAFacts, and Federal Reserve Bank of St. Louis.
7. Source: Electric Vehicle Electric Vehicle Charging Infrastructure Trends from the Alternative Fueling Station Locator: Second Quarter 2022, National Renewable Energy Laboratory, December 2022.
8. Source: White House Fact Sheet, August 5, 2021.

Our Recent Successes in Highway Safety Services

Not Disclosed

Blue Sea Capital

has partnered with

Flagger Force Traffic Control Services

Not Disclosed

TENEX Capital Management

has acquired

Rose Paving LLC

Not Disclosed

RoadSafe Traffic Systems

has been acquired by

Investcorp Trilantic