

# STEER

PARTNERS

*January 2025*

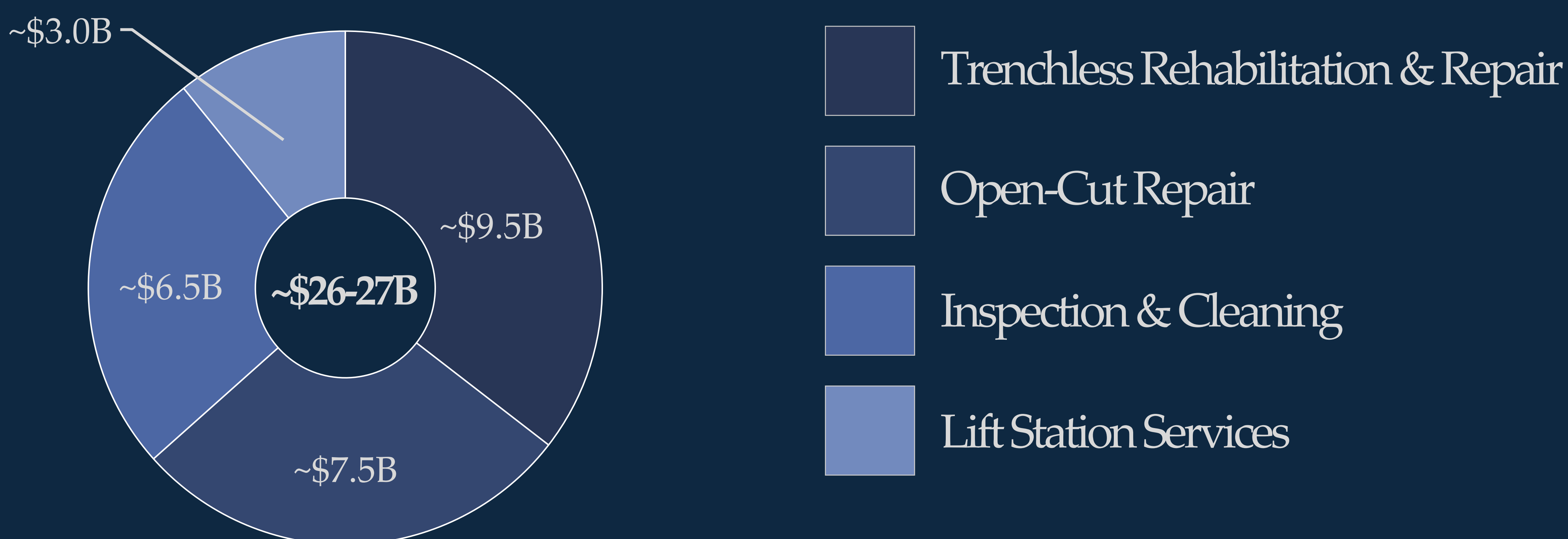
Harness  
Flowing  
Returns in Water  
Infrastructure

The U.S. infrastructure market is poised for robust growth over the coming years and will continue to be an attractive sector for private equity investment. Within the infrastructure industry, the water sector is especially well-positioned to capture attention due to favorable market drivers and an opportune environment for deal-making. **Established platforms can benefit from favorable market conditions, large pools of add-on acquisitions, and opportunities in adjacent service offerings.**

The largest driving factors behind water infrastructure market growth are aging infrastructure and government funding. Most water pipes across the U.S. are approaching their expected lifespan and require replacement to maintain effectiveness; to spur replacements, federal and state governments have earmarked **significant funding for related projects**. The Infrastructure Investment and Jobs Act of 2021 (IIJA), most notably, allocated ~\$55B in funding for water and wastewater infrastructure across the nation.

Within the water infrastructure services market, trenchless rehabilitation & repair, open-cut repair, inspection & cleaning, and lift station services offer an attractive opportunity, standing at a combined ~\$26-27B in 2024E. Providers in these industries are forecast to experience strong tailwinds from government funding, aging infrastructure, regulatory enforcement, and severe weather patterns.

## Water Infrastructure Services Market Size (2024)

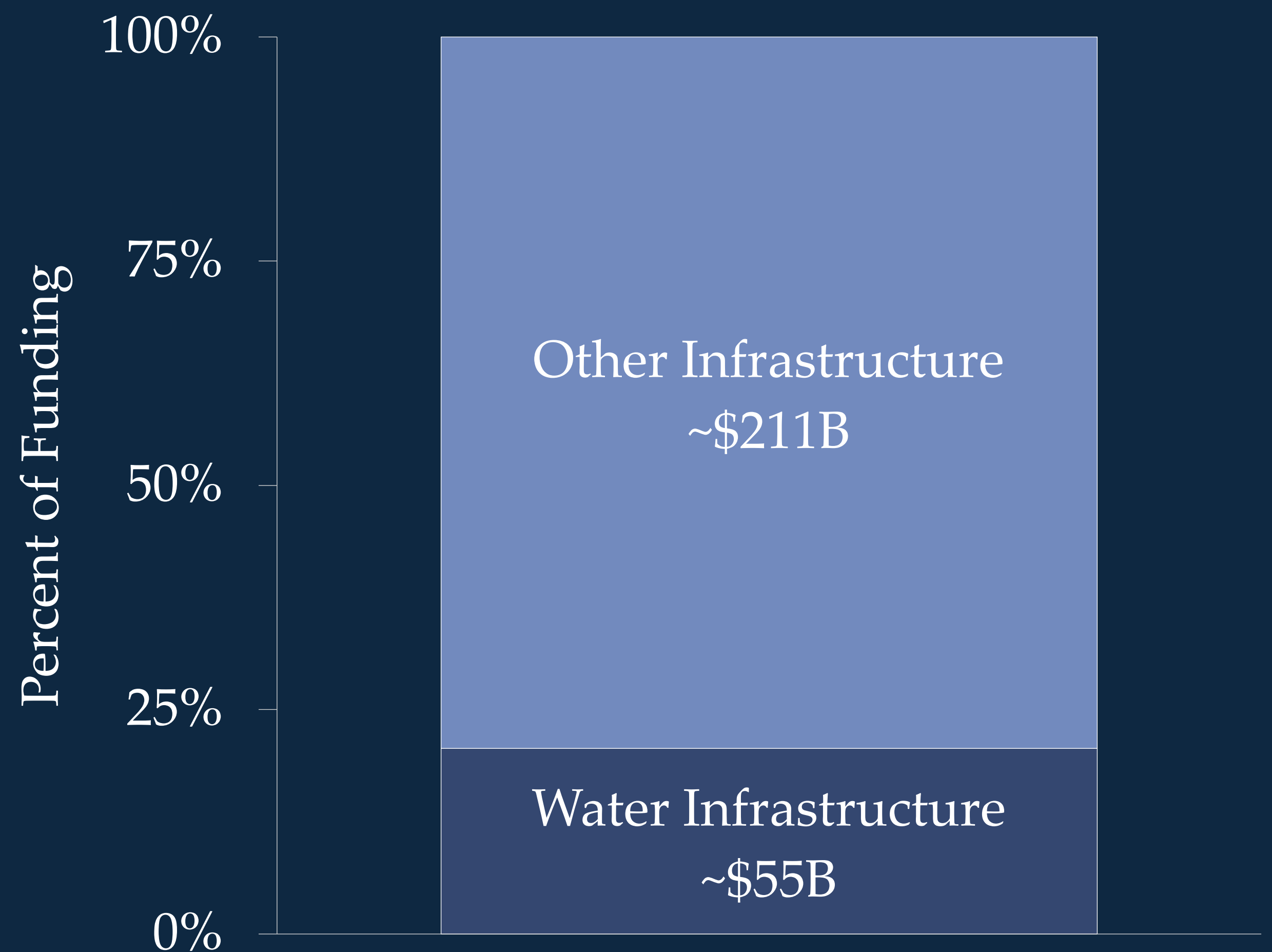


## Market Drivers

### Government Funding

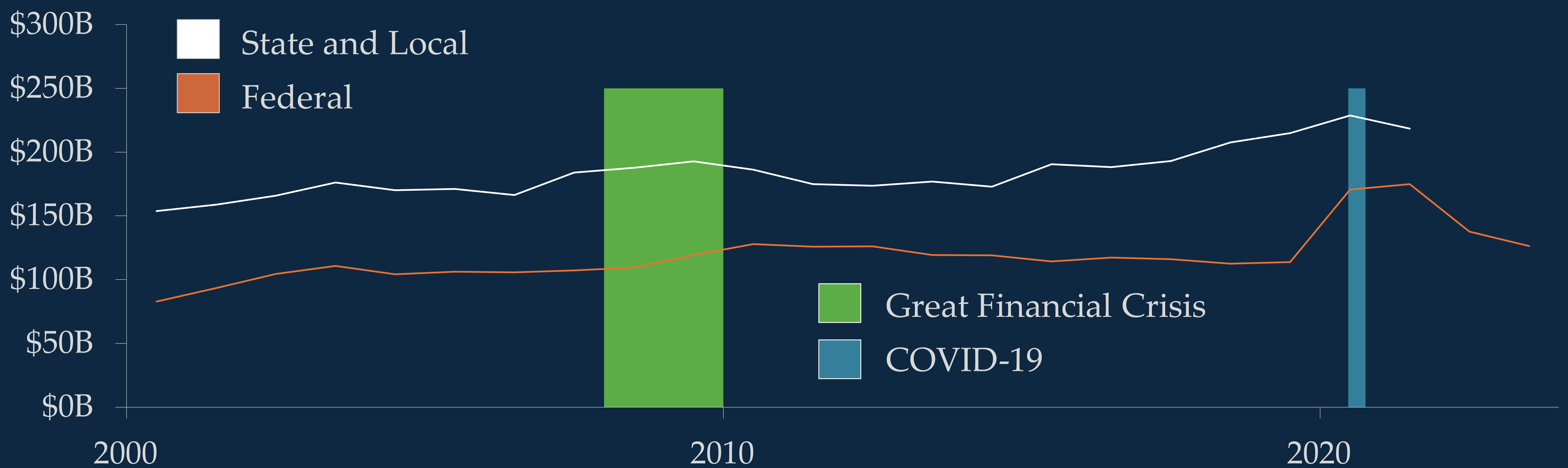
- The U.S. government prioritized the revitalization of core infrastructure assets through the IIJA; ~\$55B of the funding was allocated to water infrastructure.
- As of November 2023, more than half of IIJA funds had yet to be allocated, leaving substantial runway for new projects.
- New build projects grow the base of infrastructure assets requiring maintenance and repair services; providers in these sectors are poised for growth from new demand.

### IIJA Core Infrastructure Spending Summary ~\$266B



Source: Infrastructure Investment and Jobs Act of 2021

### Infrastructure Spending by Level of Government (2000 - 2023)



- Infrastructure spending on the local, state, and federal levels has increased ~2% per year on a real basis since 2000.
- Infrastructure service providers are relatively resistant to economic downturns; the U.S. government may inject funding during downturns to create jobs and spur economic activity.
  - Federal funding during COVID jumped due to bills including the IRA and IIJA.

Source: Office of Management and Budget, Census Bureau, Department of the Treasury, and Bureau of Economic Analysis

## Market Drivers

### Aging Infrastructure

- The U.S. currently has ~7.5M miles of potable, wastewater, and stormwater pipes. STEER estimates 25% - 30% of all infrastructure pipe is already beyond the end of its useful life and will soon require replacement or repair.
- As more pipes continue to break due to age, service providers and material suppliers will benefit from heightened demand backed by government funding.



**Potable Water:**  
~2.2M Miles of Pipe



**Wastewater:**  
~1.8M Miles of Pipe



**Stormwater:**  
~3.5M Miles of Pipe

**Average Age of Pipe Nationally:**  
~40 – 50 Years



**Expected Lifespan of Pipe:**  
~50+ Years

## Regulatory Enforcement

- The U.S. has passed legislation to ensure drinking water, wastewater, and stormwater infrastructure standards are met through proper maintenance and upkeep.
- Regulatory enforcements insulate spending on water infrastructure services from recessionary events for public and private sector operators.
- Providers along the value chain of water infrastructure services will benefit from federal regulation that generates consistent maintenance & repair spend, as well as recurring capital expenditures.

## Example Regulations



Safe Drinking Water Act

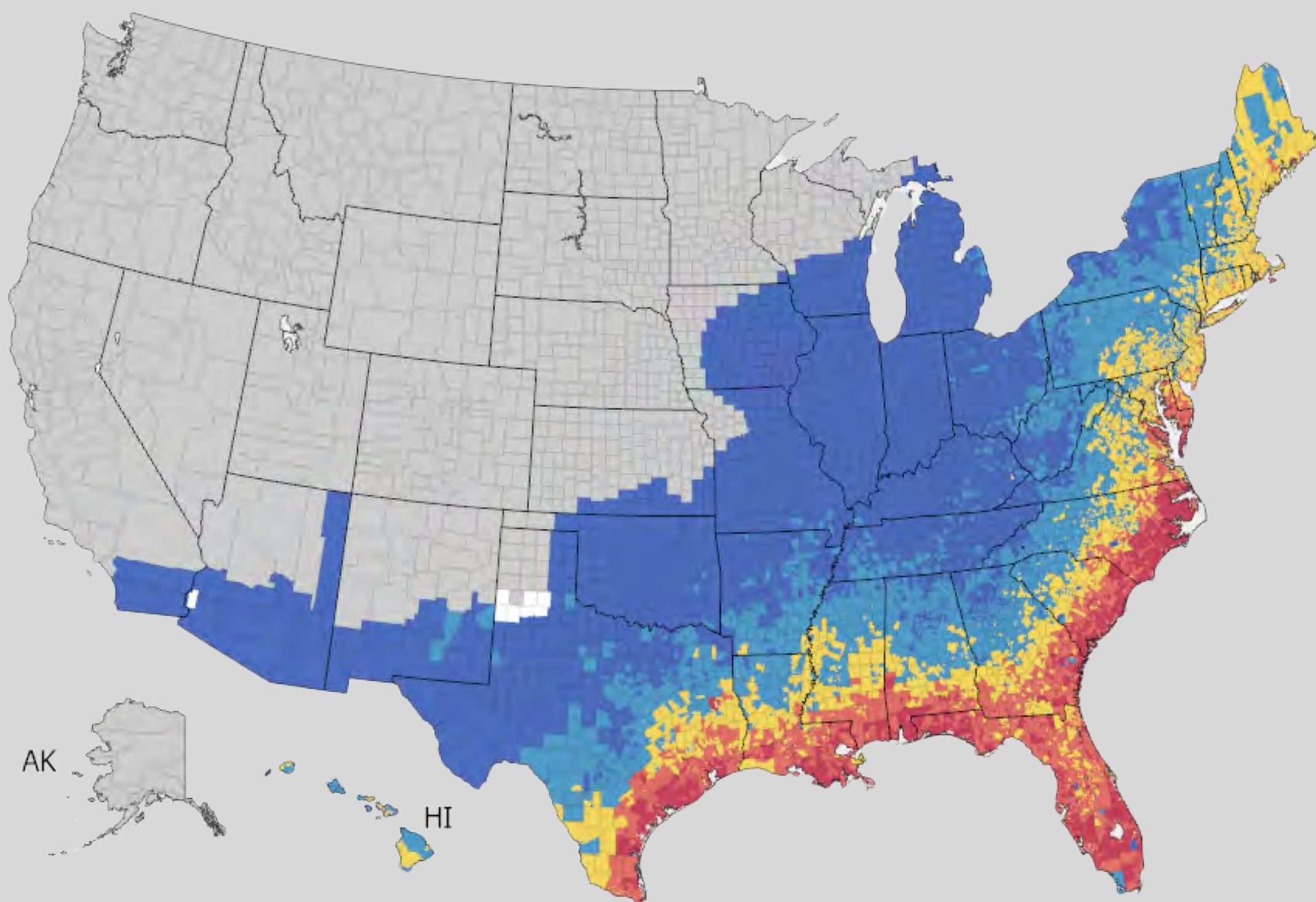


America's Water Infrastructure Act

## Market Drivers

### Weather Impacts

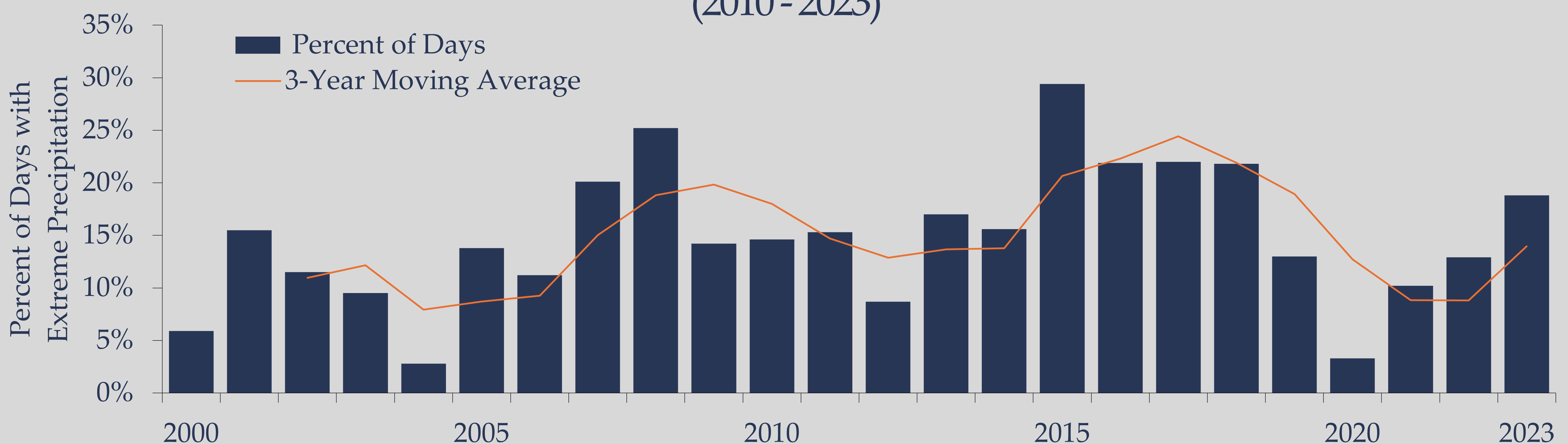
#### FEMA Hurricane Risk Index



- Severe weather events create backups and overflows for water infrastructure that will require servicing.
- Events such as hurricanes, flooding, and severe rain have been increasing over recent decades, driving outsized demand for maintenance of infrastructure.
- The Southeast region of the U.S. is most at-risk to severe weather events and is poised for heightened growth through 2029P.

Source: National Oceanic and Atmospheric Administration's National Hurricane Center's HURDAT2 Best Track Data

#### % of Days with Extreme Precipitation (Excluding Hurricanes) - Southeast (2010 - 2023)



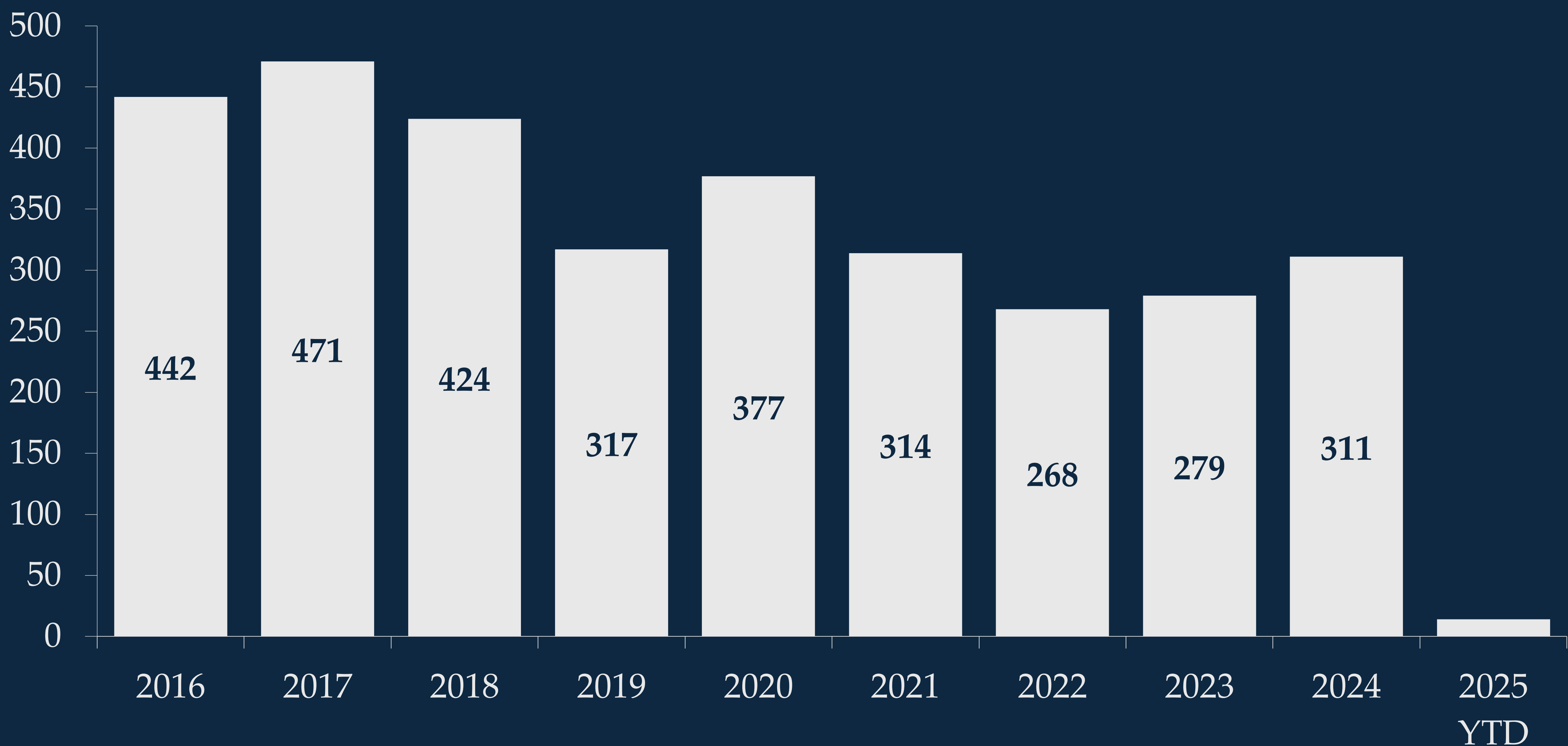
Source: Environmental Protection Agency

- The 3-year moving average number of days with extreme precipitation in the Southeast has increased ~1.2% p.a. over the past two decades, driving increased demand for water infrastructure service providers.
- Severe weather events are expected to continue growing in volume and severity, particularly in the Southeast, bolstering future growth for providers in the region.
- Service providers in the Southeast can diversify their offerings with new infrastructure repair methods and technologies to meet the needs of public and private operators during and after severe weather events.



## Infrastructure M&A Activity

### U.S. Infrastructure M&A - Number of Deals (2016 – 2025 YTD)



- Infrastructure deal activity in the U.S. has been trending upwards since 2022, though prior years have been stronger.
- STEER anticipates a positive trend in infrastructure M&A as dealmaking activity is poised to rebound in 2025.
- Despite recent declines in global M&A activity, private equity firms continue to identify attractive platforms and add-on acquisitions for value creation in the infrastructure space.
- The competitive landscape for infrastructure-focused providers is vast, allowing ample opportunities for a buy-and-build approach.

### Leading Infrastructure Fund Managers

Firm	Infrastructure Capital Raised (Jan. 2019 - Aug. 2024)
 GLOBAL INFRASTRUCTURE PARTNERS	~\$113.8B
<b>Brookfield</b>	~\$99.1B
<b>KKR</b>	~\$82.6B
 MACQUARIE	~\$80.4B
<b>EGT</b>	~\$58.7B

Note: 2024 YTD through October 14th

Source: Pitchbook, Infrastructure Investor

## Market Considerations

### 1 Stable Cash Flow

**Essential Services:** Water is a critical utility with consistent demand, making its infrastructure market less susceptible to impacts from economic cycles.

**Long-Term Contracts:** Many infrastructure projects operate under long-term agreements, such as purchase power agreements (PPAs) or water utility concessions, providing stable and predictable revenue streams.



### 2 Strong Tailwinds Outweigh Headwinds

Government funding, along with the aging of water infrastructure will have a stronger impact on the market than potential headwinds such as policy shifts or supply chain disruptions.



### 3 Fragmented Markets with Ample M&A Opportunity

Many players across the value chain in the water infrastructure sector are regionally focused or lack significant scale. Established platforms can build out diversified service offerings and expand into attractive geographies.



### 4 High Barriers to Entry

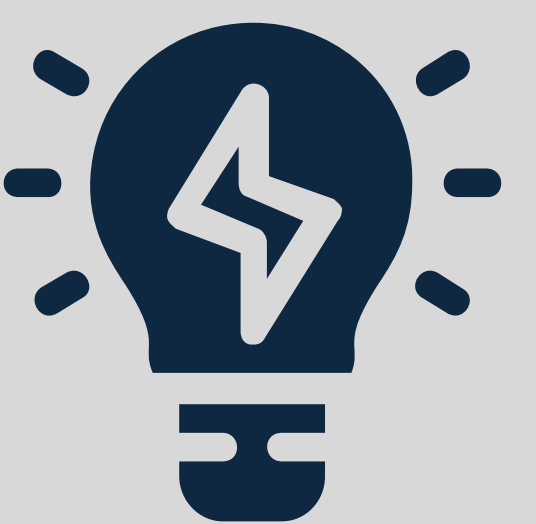
Infrastructure projects require significant industry expertise, capital, and regulatory compliance, protecting established players in the market. PE investors should look to acquire established providers with several years of experience.



### 5 Opportunities for Operational Efficiency

**Smart Technology:** PE firms can invest in upgrading water or power systems with IoT, AI, and automation to reduce costs, improve reliability, and increase margins.

**Sustainability Upgrades:** Improving environmental performance can unlock government incentives, reduce regulatory risks, and improve asset valuation during exit.



### 6 Attractive Exit Opportunities

Infrastructure investments appeal to a range of strategic buyers that include utility and engineering firms, along with other financial buyers to provide multiple exit avenues.

