



June 2024

## Elevator Services: Poised for Elevated Growth

The elevator services industry has captured investor attention and is well positioned for future growth. Historically, the leading consolidators in the industry have been the top original equipment manufacturers (OEMs), namely Otis, Schindler, TK Elevator, and KONE. However, since 2019, private equity investors have accounted for the majority of transactions in the space. This transition can be attributed to the increasing attractiveness of independent service providers (ISPs), who have continuously eaten into the market share of OEMs over the last few years, but also due to the positive growth outlook for the industry.

Market drivers such as increased obsolescence, evolving regulations, and shifting property owner preferences are accelerating historically stable (in line with GDP) growth, and against the backdrop of our current uncertain economic climate, this transformative phase in the industry presents an attractive opportunity for strategic investment.

STEER brings extensive expertise in the elevator services sector, particularly in relation to private equity investment. Our ongoing and comprehensive experience involves assessing key competitors, understanding end user preferences, and analyzing market trends to validate investment theses and provide actionable growth strategies.

STEER has delineated the three key segments of the industry below: maintenance, repairs, and modernizations, each contributing to the industry's robust **\$6.5-8.0 billion U.S. opportunity with a projected growth rate of ~6-7% p.a. over the next 5 years.**

## Maintenance



Monthly to quarterly evaluations priced between \$100-\$500 per visit to ensure regulatory and safety compliance. Represents the most recurring segment of elevator services as contracts are preset, mandatory, and prioritized to maintain building access for tenants. Typically attached to new elevator installations / modernizations.

## Repairs



Ad-hoc visits to resolve emergency issues and to replace parts as-needed outside of contract. Elevators typically see 1-4 repairs a year depending on age / usage, priced anywhere between \$1.5K-\$10K+. More deferrable than regular maintenance as property managers can opt to keep elevators out of service in the face of unexpected or large repair costs.

## Modernizations

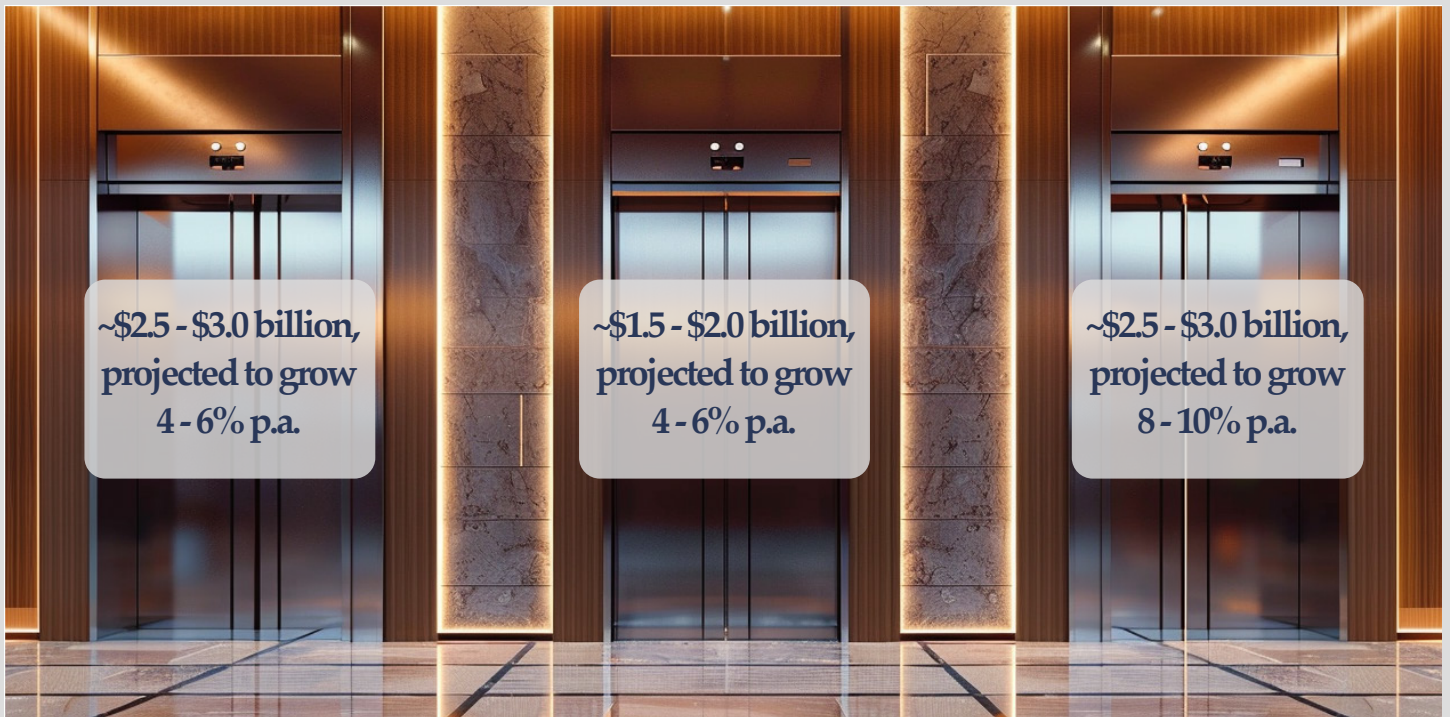


High-ticket service necessary every 20-40 years, involving a full-scale overhaul of an elevator's support system. Usually includes controller replacement, priced between \$50K-\$150K+ for hydraulic units and \$250K-\$500K+ for larger, non-hydraulic units. Building owners tend to defer mods long past the recommended timeline, creating a strong backlog of mod work across the U.S.

## Maintenance

## Repairs

## Modernizations



# Market Drivers: Elevator Services

## OEMs Ceding Share

Most elevators are installed by OEMs, with an attached maintenance agreement of 3-5 years following the elevator's construction. As end users often experience neglected routine maintenance and poor customer service with their OEM, they gravitate towards ISPs to remedy their poorly maintained elevator systems. **STEER estimates that ISPs have gained ~5% market share since 2019.**

### ISP Advantages

**Pricing:** Prices for elevator parts have increased mid-to-high single digits each year over the last 3 years, due to supply shortages of materials and increased shipping costs. Going forward, pricing is expected to increase ~3% p.a., primarily due to rising labor costs.

Despite these pricing dynamics, OEMs typically maintain a price premium over ISPs. Leading customers to shop providers if issues arise frequently or service obligations are not met adequately.

**Service Levels:** OEMs, with up to 300 elevators per technician, may neglect routine maintenance, whereas ISPs typically keep a more manageable ratio of elevators per technician (70-130), ensuring better attention to maintenance.

**Customer Service:** Unlike ISPs, OEM customers lack direct access to technicians or supervisors. ISPs create more personalized relationships, with property managers often reaching out directly to owners / technicians to address elevator concerns.

## Obsolescence

The elevator modernization cycle has been accelerated as OEMs are phasing out essential repair components at a faster rate. **OEMs are also transitioning to machine-room-less (MRL) elevators**, known for their less reliable components and increased repair challenges.

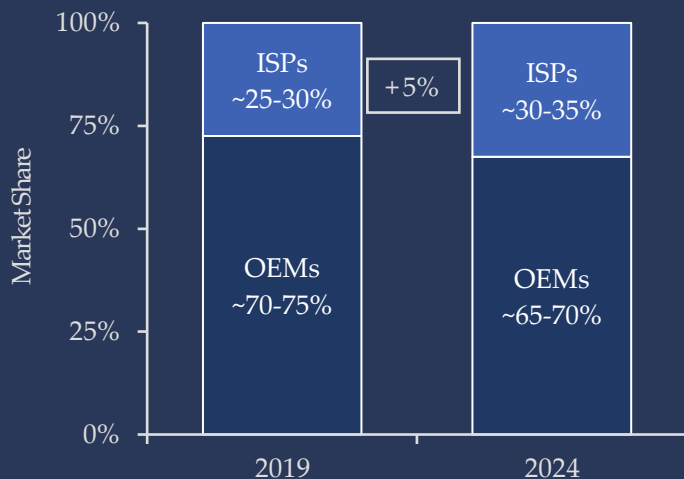
OEMs are anticipated to accelerate the discontinuation of production and support for programmable logic controller technology and other essential components, expediting modernization timelines for elevators.

While modernizations can be deferred temporarily, they are ultimately required once an elevator is completely non-functional, or reaches a point where repairs are too difficult and costly.

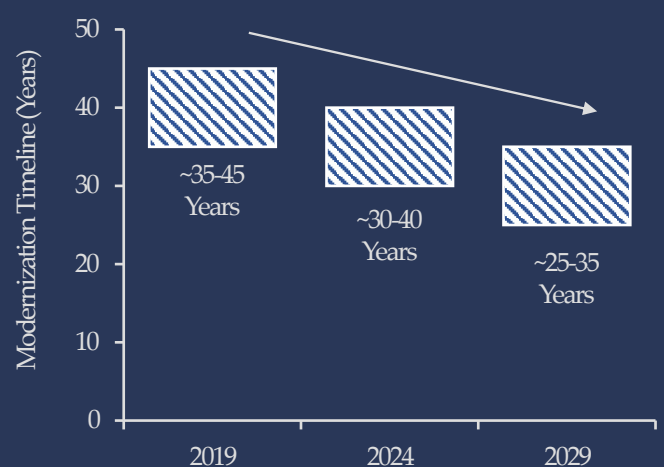
The elevator modernization market is positioned to strongly benefit from OEM changes as modernizations must take place sooner. As newer elevators are designed to be obsolete after 10-20 years, average modernization cycles will soon decrease from 30-40 years to 25-35 years, **increasing annual spend for the service segment.**



**OEM vs. ISP Market Share**  
(U.S.; 2019-2024; *Directional*)



**Decrease in Avg. Modernization Cycle**  
(U.S.; 2019-2029; *Directional*)



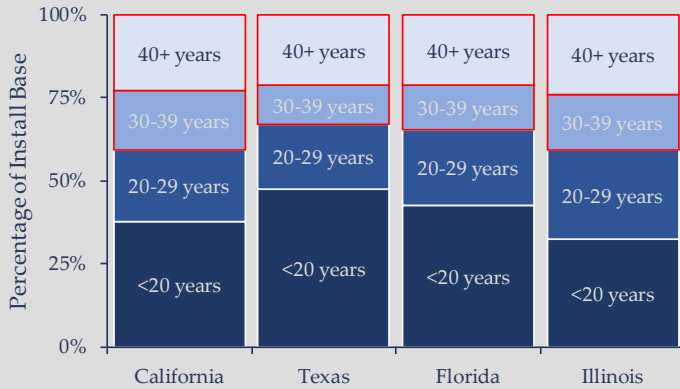
# Modernization Backlog

During COVID, many property owners faced tighter capital budgets, causing them to defer modernization projects. As a result, the subsequent years following 2020 saw a significant uptick in modernization requests. To add to the influx of mod requests, elevator parts & components fell victim to supply chain delays leading to 6–12-month modernization backlogs for ISPs and OEMs.

Despite eased supply chain constraints, ISPs and OEMs are still booked for months and in some cases have backlogs spanning over a year. This sustained, prolonged backlog can be attributed to elevators continuing to age along with shortened modernization timelines (obsolescence).

Prospective investors should be excited about these extended backlogs as ISPs across the country have modernization backlogs that span months of work, and in some cases a full year.

**Estimated Age of Elevators**  
(Select States; 2024)



Elevators aged 30+ are considered in the prime age for modernizations

Source: CA Dept of Industrial Relations, TX Dept of Licensing & Regulation, FL Dept of Business & Professional Regulation, Office of the Illinois State Fire Marshal



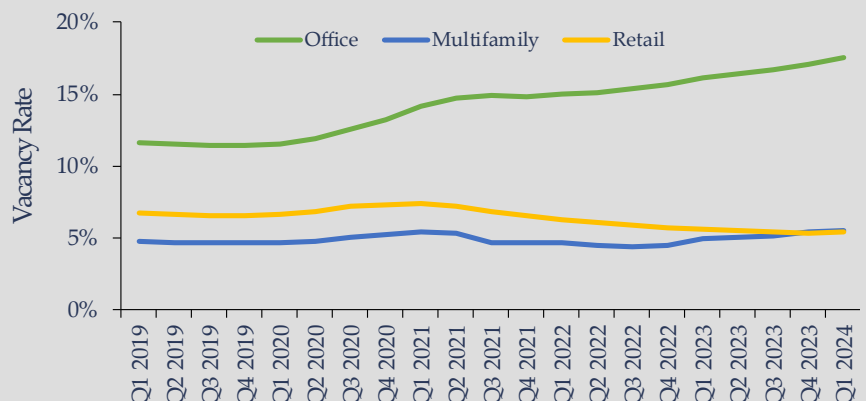
## Market Headwinds & Considerations

### Commercial Real Estate Trends

General industry consensus is that the commercial real estate market will continue to regress in the near future; however, hesitancy for non-discretionary spending on modernizations in commercial real estate will be partially offset by continued maintenance revenue.

Elevated vacancy rates in CRE will lead to **less frequent repairs and deferral of non-essential upgrades** and modernizations. However, property owners will find themselves needing to modernize due to regulatory compliance purposes, obsolescence trends, and / or previous deferment of modernization. Since **maintenance contracts are fixed agreements** of at least 1 year, **revenue streams are stable**.

**Commercial Vacancy Rates**  
(Q1 2019 - Q1 2024)



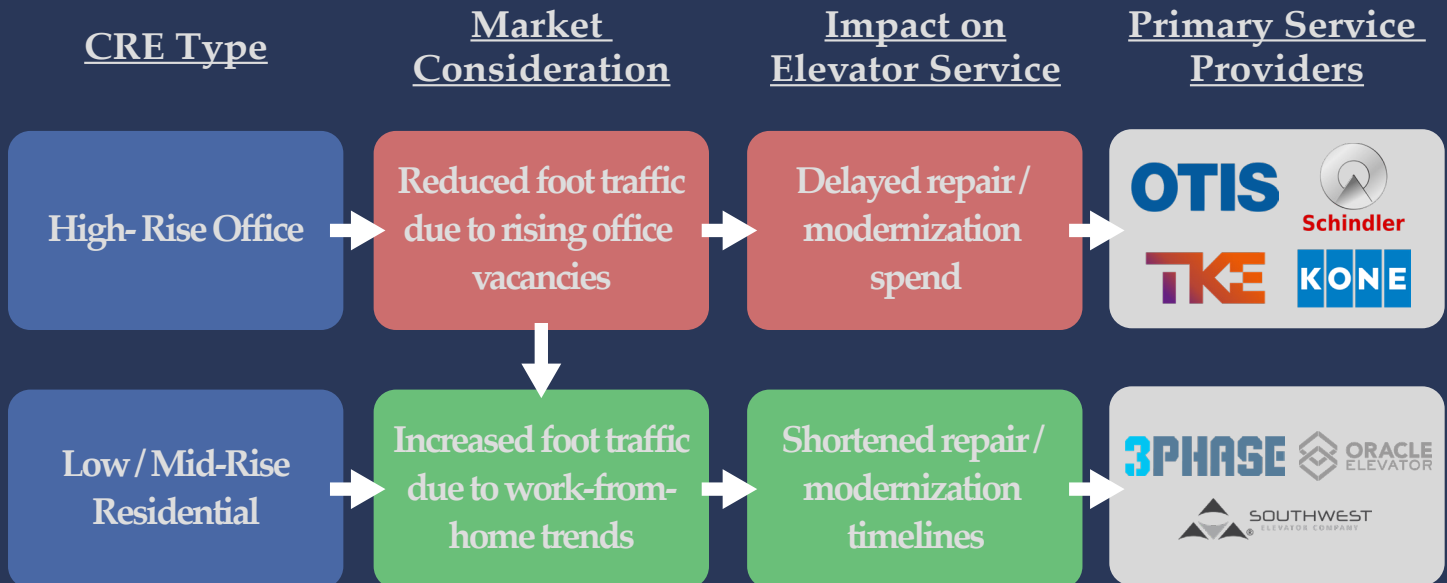
Source: Colliers, Arbor Realty Trust, Cushman & Wakefield, CBRE

## What's The Impact?

Lowered foot traffic in commercial office buildings will decrease wear-and-tear on elevators, resulting in less repairs and slight delays to the modernization timeline. However, WFH trends have caused residential buildings to see an uptick in traffic, leading to more demand for repairs and modernizations due to increased elevator usage. Thus, the higher residential occupancy and its effects on elevator usage will offset some of the impact of increased office vacancy.

The increased vacancy rates in commercial properties are more of a concern for OEMs than ISPs because of their core customers. ISPs predominantly service low-to-mid rise buildings, a significant portion of which are residential, while OEMs mostly service large, high-rise buildings which are usually commercial. With most of the vacancy rate concerns being on the commercial side, ISPs are less prone to the negative effects of decreased foot traffic.

An economic recession may cause discretionary modernizations to be deferred as property owners would struggle to designate funds for such projects. However, critical repairs for elevator function would usually still take place. Likewise, spend on maintenance will not change because service contracts are legally binding and required for a building to keep an elevator operational.



## Regulations

Although the most recent elevator safety code from the American Society of Mechanical Engineers (ASME) was released in 2022, many states are years behind in enforcing modern standards for safety. As states update their regulatory standards, spend in related upgrades, such as two-way video monitoring and pit ladders, are expected to provide a **boost in annual spend** to an already strong elevator service and modernization market.

### *Example Code Changes*

The state continues to adhere to the outdated ASME A17.1 2004 elevator code. Proposed code changes, known as 'Group V', would lead to increased spend in the modernization segment due to new safety regulations



In 2022, the state implemented the ASME A17.1 2019 elevator code, requiring 24/7 monitoring mandating all elevators to update their systems to comply, requiring buildings to increase spend for implementation



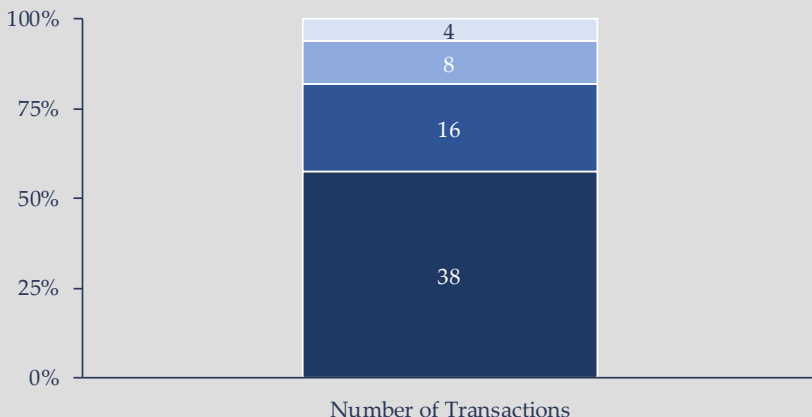
## Union Labor Dynamics

The elevator services market is primarily union labor, organized through local chapters of the International Union of Elevator Constructors (IUEC) for both OEMs and ISPs. The industry widely accepts the use of union labor, ensuring that technicians receive proper training and specialize in their respective areas (installations, maintenance/repairs, modernizations). Currently, technicians are in short supply in some areas of the U.S., leading to higher prices which are passed directly to end users.

Union labor is appealing for skilled workers because of its compensation structure and the stability it provides to technicians. Most major players, including PE roll-ups, have predominantly relied on union labor to enhance their scale and geographic coverage. In the elevator services industry, non-union labor is not considered practical on a large scale due to the general scarcity of available technicians and the lower level of skill associated.

## Private Equity Interest & Consolidation Trends

**M&A Activity**  
(U.S.; 2019-2023)



■ PE Add-On ■ OEM ■ Other ISP ■ PE Platform

Acquisitions have long been a viable strategy for growth within the elevator services industry. As private equity firms continue to add on to platform investments, some fear that the window for acquisition has closed. However, turnover among existing PE-backed platforms and consistent ISP share gain indicates that the market remains a viable investment opportunity.

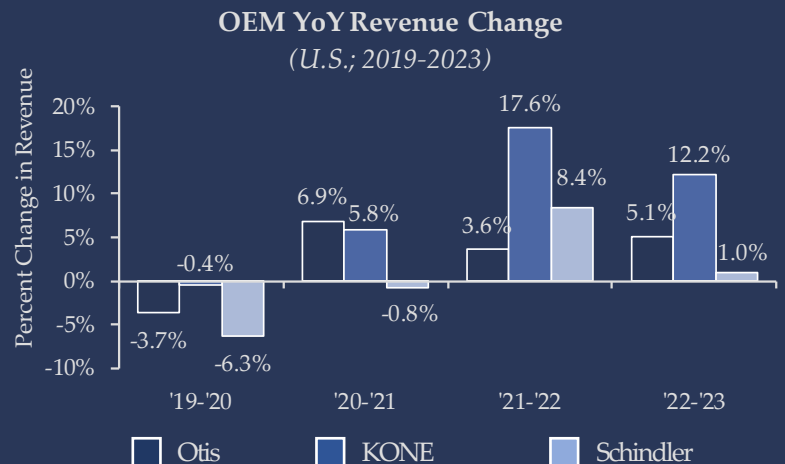
Source: STEER Partners Research & Analysis, Lift Business Advisors, Maven Group, Company Websites

The recent rise of private equity activity in the elevator services industry can be attributed to numerous factors, primarily **consistent recurring revenue from monthly maintenance contracts**. As well, **ISP owners nearing retirement without a set succession plan are increasingly open to selling**. In general, ISPs are becoming **more favorable to the idea of selling to private equity firms** as owners typically remain less involved in the day-to-day operations compared to an OEM.

While consolidation has increased since 2019, the impact of recent transactions is offset by **employees caught in these roll-ups leaving to start their own elevator service company**. Furthermore, industry commentary notes that **ISPs will continue to steal share** from major OEMs moving forward as they **win over end users on lower prices and superior customer service**. Thus, smaller ISPs will grow in scale and become more attractive acquisition targets for add-ons and platform investments.

Since the onset of the pandemic, OEM revenue in the U.S. has bounced back, driven by ongoing maintenance contracts and modernization backlog. As ISPs gain share and remain more insulated to commercial real estate trends, STEER anticipates that **year-over-year revenue growth for ISPs will outpace that of the OEMs** in the foreseeable future.

Source: STEER Partners Research & Analysis, Company 10Ks



### OEM YoY Revenue Change (Americas; 2022-2023)

Legend



3 - 5 Yr. Outlook



Modernization



Maintenance



## Conclusion

The interplay of the 3 main elevator services segments underscores the industry's resilience and adaptability. While maintenance and repairs provide consistent revenue streams and address immediate needs, the modernization segment holds latent potential, driven by a growing backlog resulting from deferred upgrades and OEM obsolescence. As well, ISPs are gaining share from OEMs due to their lower levels of service and focus on new equipment sales

Industry stakeholders can not only capitalize on the steady demand for maintenance and repairs but also strategically position themselves to cater to the burgeoning modernization sector.

### At a Glance: PE in the Elevator Services Market

Trading multiples for ISPs range from high single-digits to low 20s EBITDA, dependent on scale and service revenue splits (maintenance, repairs, modernizations)

Public OEMs trade in the ~15x-25x EBITDA range

Company	PE Ownership	HQ Location	Estimated Size	# of Add Ons
	<ul style="list-style-type: none"> <li>Arcline ('20 - Present)</li> </ul>	New York, NY	500 - 1,000 employees	18+
	<ul style="list-style-type: none"> <li>L Squared ('17 - Present)</li> <li>Incline Equity ('10 - '17)</li> <li>Jupiter Partners ('04 - '10)</li> </ul>	Tampa, FL	500 - 1,000 employees	10+
	<ul style="list-style-type: none"> <li>Thayer Street Partners ('20 - Present)</li> </ul>	New York, NY	200 - 500 employees	5
	<ul style="list-style-type: none"> <li>Berkshire Partners ('21 - Present)</li> <li>Fort Point ('18 - '21)</li> </ul>	Canton, MA	200 - 500 employees	17
	<ul style="list-style-type: none"> <li>Align Capital Partners ('19 - Present)</li> </ul>	Fort Worth, TX	200 - 500 employees	2
	<ul style="list-style-type: none"> <li>Carroll Capital ('19 - Present)</li> </ul>	Grand Rapids, MI	100+ employees	3