

ESCO Market Overview

Summer 2025

CONTENTS

This report provides an overview of the ESCO and subcontractor market, highlighting key growth drivers, emerging challenges, and trends shaping opportunities for businesses serving the energy efficiency and sustainability sector.

KEY TAKEAWAYS

- ESCOs are prioritizing fewer, deeper subcontractor relationships and pursuing acquisitions to lock in capacity, ensure quality, and deliver turnkey solutions on large-scale projects.
- Persistent skilled labor shortages are increasing the value of subcontractors and giving well-run businesses more leverage in contract negotiations and exit opportunities.
- Federal funding programs, infrastructure investment, and rising energy costs are fueling demand for energy efficiency projects and keeping backlogs strong.
- Market consolidation is accelerating, with strategic buyers and private equity actively seeking scalable subcontractors. Owners who act now are best positioned to command premium valuations.
- Subcontractors investing in advanced technology, controls, and multi-trade capabilities are winning more RFPs and positioning themselves as indispensable partners to ESCOs.

EXECUTIVE SUMMARY

The Energy Service Company (ESCO) and subcontractor market is experiencing significant growth, driven by demand for energy efficiency, renewable energy solutions, and sustainable practices. ESCOs are securing larger public sector contracts and increasingly relying on specialized subcontractors to deliver critical project scope. Subcontractors, in turn, are expanding their service offerings, integrating advanced technologies, and positioning themselves as essential partners. While federal funding programs support activity, persistent inflation, tariffs, and One Big Beautiful Bill Act (“OBBBA”)-related dynamics are shaping project costs and influencing demand, leading to both opportunities and challenges across the market. Many areas improved modestly from the second quarter, with stronger backlog levels and steady to rising confidence in business outlooks. However, inflationary pressures, shifting trade policies, and uncertainty in public versus private sector prospects are tempering overall sentiment.

OVERALL ECONOMIC AND MARKET CONDITIONS

ESCO MARKET OVERVIEW

Large ESCOs are winning contracts of increasing size, particularly in the public sector where federal and state programs continue to drive project demand. To deliver these large and complex projects, ESCOs rely on subcontractors with deep expertise in specialized markets such as HVAC, renewables, and advanced controls. ESCOs are also consolidating their subcontractor relationships, working with fewer partners across projects to ensure consistency, reliability, and scale.

SUBCONTRACTOR MARKET OVERVIEW

Subcontractors are expanding their capabilities to capture greater scope from ESCOs, investing in areas such as smart grids, advanced analytics, distributed energy resources, and new energy technologies. These investments enable subcontractors to increase efficiency, broaden solution offerings, and provide ESCOs with turnkey capabilities. By building multi-disciplinary platforms, subcontractors position themselves as indispensable partners for the largest ESCO projects.

BROADER REFLECTIONS

The subcontractor market is undergoing structural change. Government funding, particularly through the Bipartisan Infrastructure Law, continues to sustain activity, but the pipeline of large-scale projects is maturing. Consolidation is accelerating, with both private equity-backed roll-ups and strategic subcontractors building scale to meet ESCO expectations for broader service scope, higher safety standards, and national coverage. Financial buyers are showing more selectivity as project visibility becomes less certain, while strategic buyers remain active, seeking geographic reach and expanded capabilities. Owners who act now can take advantage of robust funding, active buyer interest, and favorable consolidation dynamics—while those who wait may face a more competitive and lower-valuation environment.

TARIFF EXPOSURE & MITIGATION STRATEGY

In 2025, tariffs were applied broadly to global imports. Responsive ESCO subcontractors purchased materials upfront, limiting exposure to cost increases after contracts are awarded. Now, subcontractors are rethinking their sourcing and contract prioritization.



RECOMMENDATIONS FOR SUBCONTRACTORS

FLEXIBLE SOURCING STRATEGY

Subcontractors should maintain vendor neutrality, enabling them to pivot quickly toward tariff-advantaged or exempt countries. This flexibility reduces reliance on any single geography and helps preserve cost competitiveness.

ENSURE TAA COMPLIANCE

Subcontractors should prioritize sourcing from **Trade Agreements Act (TAA)** compliant countries to remain eligible for federal projects while minimizing exposure to higher-tariff regions.

FEDERAL PROJECT INSULATION

Demand for federal work remains strong and subcontractors must comply with **Buy American Act** requirements, which inherently insulate these projects from foreign tariff exposure and help minimize the impact of global tariffs.

ONE BIG BEAUTIFUL BILL ACT

ESCO IMPACT

The sunset of key clean energy tax credits and the introduction of new restrictions have made some projects less financially attractive. However, the OBBBA also includes important provisions that provide strong financing tools to support capital-intensive energy efficiency projects and technological innovation.



KEY POINTS FOR ESCOs

DELAY IN PROJECT LAUNCHES

As a result of new rules and evolving eligibility for incentives, many ESCO projects are experiencing delays in start dates—not a drop in demand—as stakeholders reassess compliance requirements and project economics before launching new work.

FINANCING INCENTIVES

The OBBBA restores EBITDA-based limits on interest deductions, allowing ESCOs to write off a larger portion of financing costs, which makes debt-funded projects more attractive. Additionally, it permits full expensing of domestic research and development costs in the year incurred, encouraging greater investment in new energy efficiency and clean technology innovations.

COST PRESSURES DRIVE EFFICIENCY URGENCY

The anticipated increase in energy costs due to OBBBA is heightening the urgency for organizations to adopt cost-saving solutions. This is expected to sustain and potentially boost demand for energy-efficient lighting, envelope improvements, and other efficiency projects, as both public and private entities seek to offset rising operating expenses.

ACQUISITION OPPORTUNITY

ESCOs and private equity firms are actively acquiring subcontractors to strengthen capabilities, expand geographically, and capture greater market share. These buyers are seeking businesses that can serve as foundational platforms for growth, with the potential to scale through additional acquisitions, operational improvements, and strategic integration.

For subcontractors, the current market presents a particularly compelling acquisition window. Labor constraints, rising project backlogs, and the need for specialized expertise are driving demand for high-quality subcontractors, while supportive policy, federal and state funding programs, and favorable incentives continue to fuel large-scale energy efficiency projects. Companies that engage with well-capitalized buyers now can position themselves to maximize strategic value, benefit from growth under new ownership, and achieve an optimal exit in a dynamic market.

Key insight: Not selling today could possibly mean competing with large platforms tomorrow and reduced financial sponsor interest in the future

Read

MHH White Paper:

Positioning Subcontractors for Maximum Value in the Evolving ESCO Market

Strategic Exits and Growth:
Insights for Subcontractors in the Shifting
ESCO Landscape



ESCO MARKET OVERVIEW

Rapidly Evolving Energy Innovations Fueling Growth

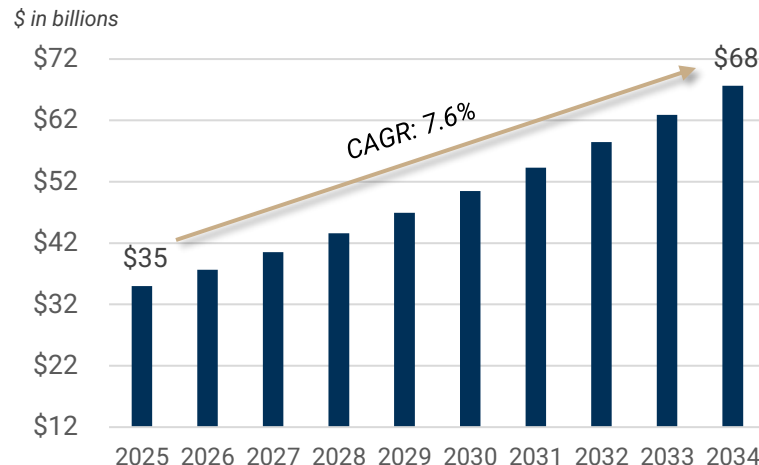
The Energy Service Company (ESCO) industry is experiencing significant growth, driven by increasing demand for energy efficiency, renewable energy solutions, and sustainable practices. ESCOs play a crucial role in helping organizations reduce energy consumption, lower operational costs, and achieve environmental goals, primarily through performance-based contracts.

Market Size and Growth



- **Current Market Size (2025):** Estimated at approximately \$35.0 billion globally.
- **Projected Growth:** Expected to reach \$68 billion by 2034, with a Compound Annual Growth Rate (CAGR) of around 7.6%.
- **Dominant Segments (2024):** Energy efficiency services and renewable energy services lead the industry, representing 45% and 30% of the market respectively.
- **Key Customer Segment:** Public and institutional organization (e.g., K-12 schools, state/local governments, universities) consistently account for over 90% of industry revenue. Large enterprises held 52.8% of the market share in 2024.

U.S. ESCO Market Size Forecast 2025 – 2034¹



Energy Service Companies (ESCOs)

ESCOs contract with institutional energy users in the public and private sectors to provide cost-effective energy efficiency retrofits across a wide spectrum of client facilities, from college campuses to water treatment plants.

Since 1990, ESCOs Have Delivered:



\$75Bn
Savings



650K
Person-Years of
Employment



\$70Bn
Projects Paid
from Savings



560MM
Tons of CO2
Saved

CURRENT TRENDS SHAPING THE ESCO LANDSCAPE

Capturing Larger, More Complex Projects

Leading ESCOs are increasingly securing large, bundled performance contracts, driven by federal infrastructure funding, multi-campus and portfolio-wide public sector RFPs, and growing demand for integrated energy efficiency and decarbonization solutions. Successfully executing these complex projects requires advanced internal project management, substantial bonding capacity, and strong access to capital, favoring national players and private equity-backed platforms.

Focus on Partnering with Fewer Subcontractors

ESCOs are sharpening their delivery models by cutting down on subcontractor complexity and building deeper, recurring partnerships. Increasingly, they favor turnkey partners capable of executing full design-build scopes or bundling multiple trades under one roof. By working with fewer vendors, ESCOs reduce risk, enhance quality control, improve coordination, and strengthen accountability. This shift is driving greater vertical integration across the industry, seen in acquisitions, pre-qualified partner networks, and regional master service agreements that lock in reliable capacity.

Strengthening Core Competencies in a Tight Labor Market

ESCOs are aggressively expanding their in-house expertise across HVAC, controls, and other critical scopes, whether through targeted acquisitions or strategic internal build-outs. By bringing these high-value capabilities under their own roof, they secure access to skilled labor, safeguard margins, and insulate themselves from the subcontractor shortages and capacity constraints that continue to challenge the market.

Primary ESCO Subcontractors

HVAC

Heating, Ventilation, and Air Conditioning; Composed of AHU's, Chillers/Boilers, Ductwork, VAV Boxes, and Diffusers/Grills

Lighting

Commercial lighting focuses on efficiency, functionality, safety, and scalability; Offering range from overhead fixtures to smart-controlled systems

Building Envelope

Physical barrier that separates the interior of a building from the external environment

Solar

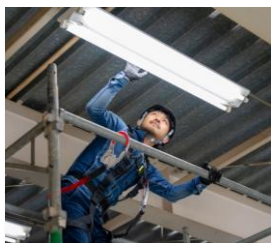
Solar photovoltaic (PV) technology converts sunlight into electricity using silicon solar cells

ESCO SUBCONTRACTOR MARKET OVERVIEW

Labor Scarcity, Tech Adoption, and Policy Shaping ESCO-Subcontractor Dynamics

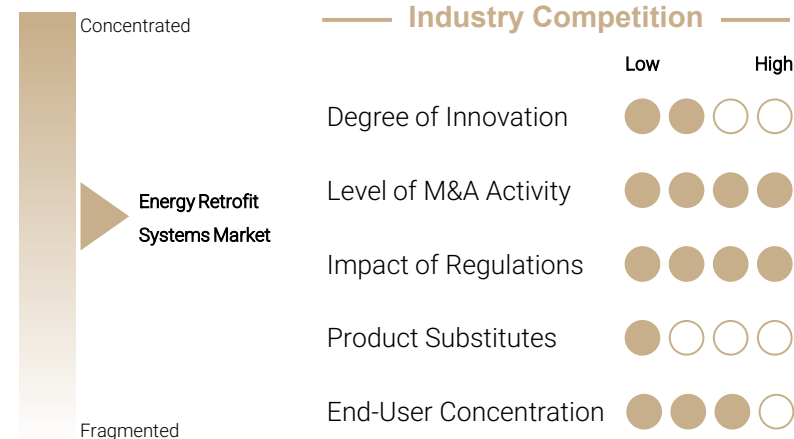
ESCOs are acquiring subcontractors to offer specialized services to their clients. Subcontracted work, like HVAC or solar, is highly specialized and difficult for ESCOs to spin-up internally to offer as new service lines.

Key Trends

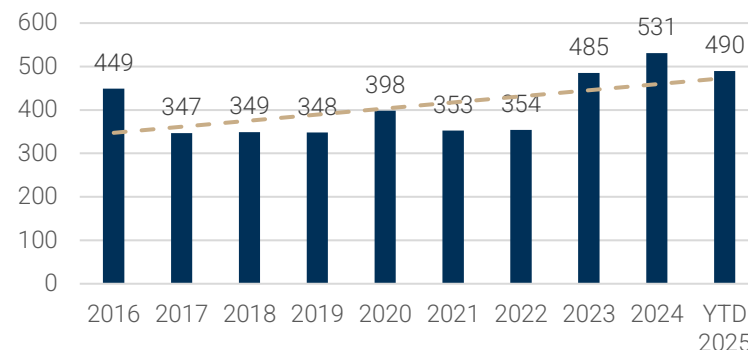


- Skilled Trades (HVAC, solar, electrical) are in short supply. Subcontractors increasingly choose higher-margin or easier-to-execute projects, forcing ESCOs to compete for their capacity.
- Large ESCOs are acquiring capacities traditionally offered by specialist subcontractors, reducing reliance on fragmented markets.
- Subcontractors are investing in smart sensors, automated controls and commissioning tools, and planning software. Tech-enabled subs are winning more RFPs and aligning with performance-based contracts.
- The Inflation Reduction Act (IRA) and IIJA have dramatically increased funding for municipal and K-12 retrofit projects. In high-demand markets, subcontractors are booked months in advance.
- Government contracts increasingly require union labor, MBE/WBE subcontractor participation, and local workforce development. Subs with compliant hiring practices are in demand.

Market Characteristics



M&A Annual Deal Count in ESCO Market¹



DIVERSE & WIDESPREAD END MARKET DEMAND

K-12 Schools



- K-12 school districts spend nearly \$8 billion annually on energy costs, the second largest expense after teacher salaries.
- Aging facilities combined with limited school budgets result in deferred maintenance of facilities with an estimated \$270 billion needed for infrastructure repairs.

Higher Education



- The higher education sector in the U.S. accounts for over 20 million post-secondary students and about 5 billion square feet of floorspace.

Local & State Government



- Local government buildings consume 2 quadrillion Btus/year and have the potential to save \$3.7 billion annually through a 20% improvement.
- State government buildings consume 1.1 quadrillion Btus/year and have the potential to save \$2.1 billion annually through a 20% improvement.

Multi-Family



- The multifamily housing sector offers unique opportunities for lighting retrofits and decarbonization over the next decade.
- 36% of U.S. households now rent, and more than 60% of the rental market is in multifamily buildings, accounting for 27 million households.

Commercial



- With nearly 6 million buildings accounting for 97 billion square feet of floor space, the U.S. commercial sector – including retail, hospitality, commercial real estate, and healthcare industries – is large, diverse, and represents substantial energy savings potential.

SITUATION ON THE GROUND













Tailwinds For ESCOs and Their Subcontractors

- **Rising Energy Costs & Price Volatility:** Incentivizes organizations to seek cost-saving energy solution
- **Stringent Government Regulations & Incentives:** Growing emphasis on energy efficiency, carbon reduction targets, and supportive policies (e.g., Inflation Reduction Act, Infrastructure Investment and Jobs Act).
- **Increasing Demand for Onsite Distributed Energy Resources (DER):** Focus on energy resilience and incorporating onsite generation and storage.
- **Focus on Sustainability & ESG Goals:** Organizations are prioritizing environmental, social, and governance objectives, leading to increased adoption of ESCO services.
- **Technological Advancements:** Integration of smart grids, advanced analytics, and new energy technologies enhances efficiency and solution offerings.
- **Energy Performance Contracting (EPC):** Remains a core business model, offering guaranteed savings and attracting risk-averse clients.



COMPARABLE PUBLIC COMPANY ANALYSIS

Energy Service Companies⁽¹⁾

Company Name	Market Capitalization			LTM Performance			Valuation		Price / EPS	Margins	
	Stock Price 9/12/2025	Equity Value	Enterprise Value	Revenue	EBTIDA	EPS	Enterprise Value / Revenue	EBITDA		Gross Profit	EBITDA
 DUKE ENERGY	\$122.11	\$94,956	\$185,102	\$31,271	\$14,490	\$6.12	5.9 x	12.8 x	20.0 x	31.7%	46.3%
 Southern Company	\$92.13	\$101,348	\$174,235	\$28,363	\$12,738	\$3.88	6.1 x	13.7 x	23.8 x	31.0%	44.9%
 Honeywell	\$215.31	\$136,700	\$164,230	\$39,991	\$9,631	\$8.79	4.1 x	17.1 x	24.5 x	38.3%	24.1%
 Constellation	\$318.00	\$99,345	\$105,951	\$25,210	\$5,413	\$9.60	4.2 x	19.6 x	33.1 x	13.5%	21.5%
 Johnson Controls	\$107.82	\$70,556	\$82,679	\$20,082	\$3,313	\$3.36	4.1 x	25.0 x	32.1 x	38.1%	16.5%
 nrg	\$157.92	\$30,547	\$42,116	\$29,381	\$3,725	\$2.33	1.4 x	11.3 x	NM	15.9%	12.7%
 leidos	\$185.13	\$23,752	\$28,479	\$17,053	\$2,312	\$10.60	1.7 x	12.3 x	17.5 x	17.6%	13.6%
 AECOM	\$127.66	\$16,908	\$18,504	\$16,075	\$1,184	\$5.14	1.2 x	15.6 x	24.8 x	7.5%	7.4%
 PARSONS	\$76.10	\$8,126	\$9,304	\$6,683	\$541	\$3.58	1.4 x	17.2 x	21.3 x	21.4%	8.1%
 ABM	\$46.82	\$2,915	\$4,525	\$8,498	\$418	\$1.25	0.5 x	10.8 x	NM	11.9%	4.9%
 AMERESCO Green • Clean • Sustainable	\$27.33	\$1,440	\$3,195	\$1,859	\$195	\$1.17	1.7 x	16.4 x	23.4 x	14.1%	10.5%
 Orion	\$8.84	\$311	\$320	\$79	(\$5)	(\$0.28)	4.0 x	NM	NM	27.9%	-6.6%
Mean							3.0 x	15.6 x	24.5 x	22.4%	17.0%
Median							2.9 x	15.6 x	23.8 x	19.5%	13.1%

1. FactSet

SELECT PRECEDENT M&A TRANSACTIONS

ESCOs¹

Deal Date	Target Name	Target Business Description	Acquirer	Enterprise Value	Target Revenue	Target EBITDA	Enterprise Value/EBITDA
Aug-25	NV5 Global	Provides professional and technical engineering and consulting services to public and private sector clients.	Acuren	\$ 1,700	\$ 983	\$ 145	11.7x
Jul-25	Dynamic Systems	Provider of construction services catering to technology, semiconductor, healthcare, and industrial customers across the United States.	Quanta Services	\$ 1,350	\$ 1,100	\$ 150	9.0x
Jul-25	Cupertino Electric	Operator of an electrical engineering and construction company serving technology, renewable energy, infrastructure, and commercial industries.	Quanta Services	\$ 2,040	\$ 2,375	\$ 185	11.0x
Jun-25	CEC Facilitate Group	Provider of integrated construction services intended for facility infrastructure development.	Sterling Infrastructure (NAS: STRL)	\$ 505	\$ 415	\$ 53	9.6x
Apr-25	Altus Power	Developer, owner, and operator of large-scale photovoltaic and energy storage systems across the United States.	The Rise Fund	N/A	N/A	N/A	N/A
Mar-25	Alternative Power Generation	Operator of an engineering, procurement and construction company.	Willdan	\$ 43	\$ 37	N/A	N/A
Feb-25	Miller Electric Company	Provider of electrical contracting services serving high-growth areas across the Southeastern US.	Emcor Group	\$ 865	\$ 805	\$ 80	10.8x
Dec-24	Verantis	Provider of engineering and environmental services; Offering technologies such as scrubbers, tower internals and custom monitoring solutions, enabling efficient building operations and reduced environmental impact.	CECO Environmental	\$ 66	\$ 45	N/A	N/A
Dec-24	Alternative Energy Systems Consulting	Provider of electrical engineering, consulting, programming, and software services.	Franklin Energy Services	\$ 53	\$ 45	N/A	N/A
Oct-24	Stardust Solar Technologies (TSX:SUN)	Franchisor of renewable energy installation services, including solar panels (PV), energy storage systems, and electric vehicle supply equipment.	Bold Capital Enterprises	\$ 11	\$ 3	N/A	N/A

Mean	\$ 737	\$ 645	\$ 123	10.4X
Median	505	415	145	10.8X
High	2,040	2,375	185	11.7X
Low	11	3	53	9.0X
n =	9	9	5	5

1. PitchBook

BUYER UNIVERSE

Strategic Buyer Interests

Ability to augment existing product/service offerings

Entry into strong geographic presence

Access to strong, sticky client relationships with cross-sell opportunities

Entry into complementary market segment to existing business

Proven ability to grow and further penetrate accounts with solutions

Stability of cash flow

Financial Buyer Interests

Sustainable long-term value creation through a mature business

Roll-up opportunities























Diversified, scalable business model

Strong management team that can identify, value and execute on integration

Entry point into longstanding, sticky customer relationships

Synergies/vertical integration between existing and potential investments

Potential Buyer Camps

Buyer Camp	Rationale	Example Companies
ESCO's (Prime Contractors)	<ul style="list-style-type: none"> Secure capacity & control project delivery Protect margins Differentiate with turnkey solutions Expand capabilities 	     
ESCO Subcontractors (Peer-to-Peer Consolidation)	<ul style="list-style-type: none"> Geographic expansion Service line diversification Customer base cross-sell Scale economies 	<p><i>Regional mechanical/electrical contractors, energy retrofit specialists, solar/renewable EPC firms</i></p>
General Electrical & Mechanical Contractors	<ul style="list-style-type: none"> Entry into performance contracting supply chain Countercyclical backlog Enhance sustainability positioning Labor force leverage 	   
OEMs / Technology Providers	<ul style="list-style-type: none"> Vertically integrate installation Accelerate adoption of proprietary technology Data & service revenue 	   
Infrastructure & EPC Firms	<ul style="list-style-type: none"> Down-market diversification Stable recurring revenue Energy transition exposure 	    
Utilities & Energy Retailers	<ul style="list-style-type: none"> Expand energy services footprint Customer stickiness Meet regulatory or ESG goals 	  

MHH DEDICATED ENERGY SERVICES & INFRASTRUCTURE DEAL TEAM

Contact our deal team members to discuss the latest trends shaping your industry or to kickstart a potential sale discussion



MICHAEL MUFSON founded MHH with the goal of helping business owners navigate their most important transitions. He has spent his career guiding entrepreneurs in service-based and construction-driven industries, building a firm known for creativity and trusted advice. mmufson@mhco.com



ANTHONY LOPEZ-ONA is a Founding Managing Director of MHH and thrives on helping clients unlock growth and liquidity through strategic M&A. He brings deep sector knowledge and a passion for connecting the right partners to create lasting, mutually beneficial outcomes. alopezona@mhco.com



JONATHAN SCHOR is the team's deal architect, combining a dealmaker's instinct with a consultative approach to craft processes that deliver the right result for each client. His ability to see where companies fit in the market ensures transactions are positioned for both immediate success and long-term impact. jschor@mhco.com



ISABEL SCHAEFER is a master financial modeler who challenges assumptions and finds new ways to unlock value. Her ability to think creatively and question the status quo often leads to insights others overlook. ischaefer@mhco.com



EVANS HEAD is the team's research engine, turning complex data into clear, actionable insights. His work helps clients and buyers alike see the full potential of every opportunity. ehhead@mhco.com



MUFSON HOWE HUNTER

About Us

Mufson Howe Hunter focuses on mergers & acquisitions and private capital raising for middle-market companies in the business and industrial services sectors. MHH serves as a trusted advisor to middle-market companies throughout their lifecycle: from raising early-stage growth capital, to later-stage recapitalizations, to maximizing value upon the sale of the business.

Contact Us

Philadelphia Headquarters

1717 Arch Street, 37th Floor

Philadelphia, PA, 19103

(215) 399-5410

Philadelphia ■ Washington, D.C. ■ Atlanta

www.mhhco.com