

# M&A Trends

ACEC MA Finance Forum  
October 8, 2024



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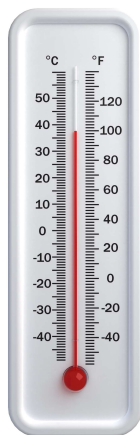
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## Section I

### M&A Trends

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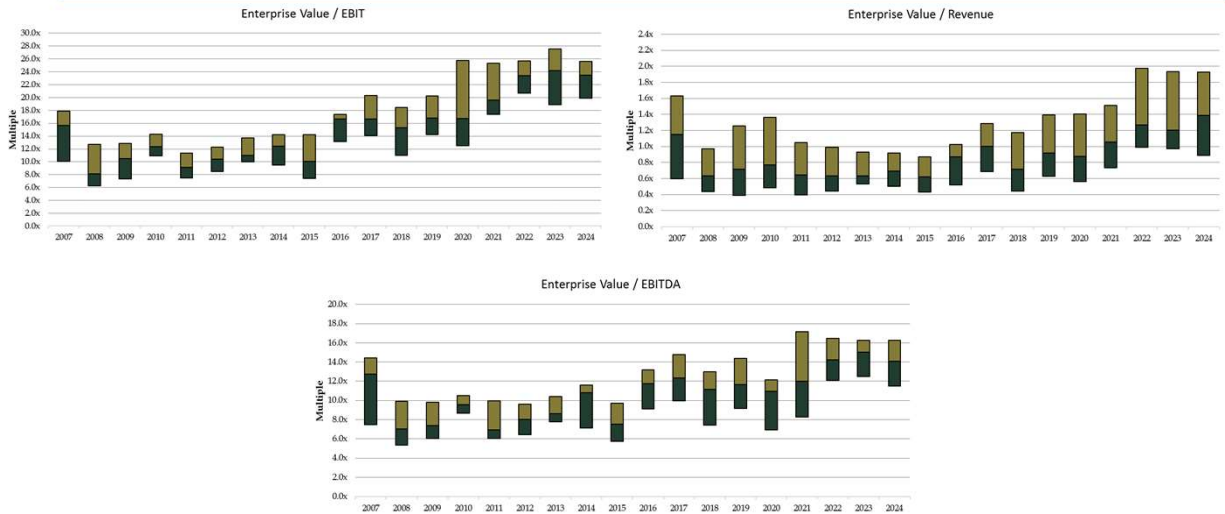
## I. A/E Industry M&A Trends



- **Hot** from 2004 – 2007
- **Warm** from late 2007 to early 2008
- **Cooling** fast from early 2008 – Q3 2008
- **Frigid** from Q4 2008 – Q3 2009
- **Cold** in Q4 2009 – Q4 2010
- **Cool** in 2011 – Q2 2012
- **Warming** due to Q4 2012 cap gain tax rate change
- **Tepid + Hesitant** w/ 2013 Govt. uncertainty
- **Hot** again in 2014 – 2015
- **Warm** start to 2016, **Hot** late-2016 – early-2020
- **Cold** in Q2-Q3 2020 due to pandemic and uncertainty
- **Sizzling Hot** Q4 2020 through today

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# I. Select Publicly Traded A/E Company Multiples

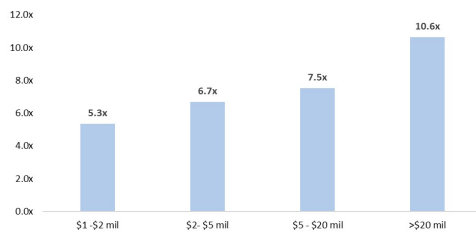


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 Lower Quartile to Median (dark green)  
 Median to Upper Quartile (light green)

# I. AEC Industry Valuation Ranges

Various sources of M&A transaction data support an 11.0x EBITDA median/average multiple for transactions that would be similar in size to TLC

**Average EV / EBITDA Multiple by Range of EBITDA**



Source: MFA A/E Transaction Database (FY 2020 through June 2024)

**Architectural, Engineering, and Related Services**

Total Enterprise Value Range	TEV \$	EBITDA Margin %	TEV / EBITDA
\$10-\$25mm	\$18.3	25.8%	6.1x
\$25-\$50mm	\$37.1	27.9%	7.2x
\$50-\$100mm	\$68.0	18.7%	7.4x
\$100-\$500mm	\$182.4	18.1%	11.0x
<b>Total</b>	<b>\$48.4</b>	<b>24.2%</b>	<b>7.1x</b>

\*\* Data Sourced from the latest 5 years

Source: GF Data

	\$1 - \$2 million EBITDA			\$2 - \$5 million EBITDA			\$5 - \$15 million EBITDA			\$15 - \$50 million EBITDA			> \$50 million EBITDA		
	2018-2020	2021	2022-2023	2018-2020	2021	2022-2023	2018-2020	2021	2022-2023	2018-2020	2021	2022-2023	2018-2020	2021	2022-2023
Upper Quartile	6.6x	6.7x	8.8x	6.6x	8.2x	8.8x	8.0x	9.0x	10.0x	10.7x	12.3x	12.7x	12.7x	13.4x	17.0x
Median	5.6x	6.0x	6.8x	5.5x	7.3x	7.1x	6.9x	8.0x	8.3x	9.4x	12.0x	11.0x	10.9x	11.9x	14.4x
Lower Quartile	4.1x	5.0x	4.4x	4.7x	5.1x	6.0x	6.2x	6.6x	7.2x	8.0x	11.0x	9.9x	9.3x	10.5x	11.5x
# Transactions	43	25	17	43	24	31	27	13	36	12	8	16	8	10	8

Source: AEC Advisors

**M** MATHESON FINANCIAL ADVISORS

## I. M&A Market Tailwinds

- IJIA funding of \$1.2 trillion through 2026 (\$550 billion in funding remaining)
- Aging demographic in the workplace necessitates transition planning
  - Gen Z expected to surpass Baby Boomers in the workforce in 2024
  - Gen X is approaching retirement timeframes
- Lack of internal transition plans within the industry
  - Younger generations presenting less of an interest in ownership
- Many of our clients' ownership models are based on significant year-end bonuses and distributions. They frequently find that these year-end claims on cash hinder the company's ability to fund growth and meet strategic goals
- Private equity funding and activity flooding the industry
  - Over 80 platforms, which are based on buy-and-build strategy



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## I. Historical A/E Deal Activity

- Just where you expect:
  - Current Frequent Buyers are on the top of and throughout the *ENR 500* and Private Equity Firms
    - *They have financial resources & strong balance sheets*
    - *"Growth" mindset vs. "Dividend" mindset*
    - *Ability to use stock and tap equity markets – second bite of the apple*
  - Typical Targets are 30-100 person firms
    - *They run out of human resources*
    - *Next tier unable to buy out the founders*



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## I. Current M&A Market

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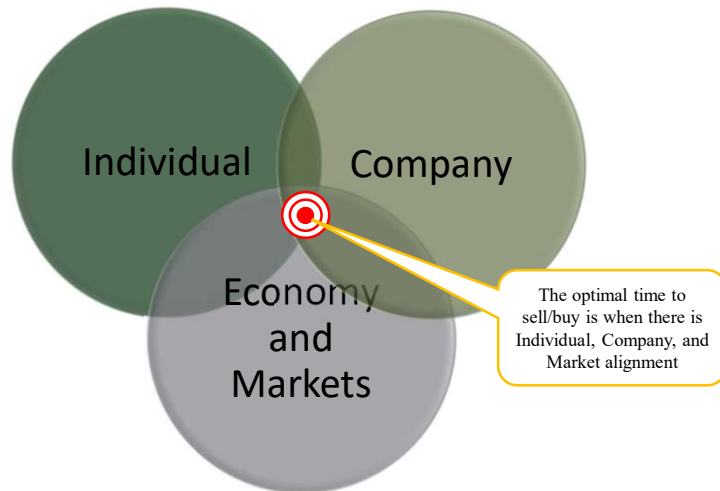
- For *Sellers* – Maximum value & new opportunities
  - Recognition that capital and larger platforms are critical
  - Risk profile
  - Lack of ownership transition program
  - Discounted internal transition value
- For *Buyers* – GROWTH remains critical
  - Higher revenues & earnings = higher value
  - Embedded overhead to cover
  - Diversification
  - Staffing difficulties

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## Section II

### Timing and M&A Process

## II. Best Time to Sell/Buy

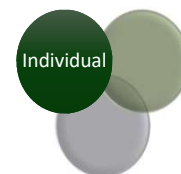


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## II. Individual Considerations – Controllable

### Evaluate the business leaders':

- Personal Life Considerations:
  - Age (nearing retirement)
  - Health
  - Other time commitments
- Individual Investor requirements:
  - Need for liquidity
  - Risk appetite
  - Desired returns
- Other Considerations? (e.g. dysfunctional relationships amongst leaders)

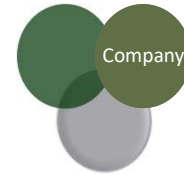


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## II. Company Considerations – Controllable

Evaluate the characteristics of the company:

- Historical volatility of performance & financial results
- Backlog and Pipeline
- Bench Strength: Depth of leadership
- Expertise of management and staff – talent constraints
- Balance sheet position



Evaluate the needs of the company:

- Independence vs. Sale
- Market concentration vs. Diversification
- Platform for growth

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## II. Economy and Market – Not Controllable

Cannot perfectly “Time the Economy & Markets” but can “Play the Windows and Data”

Evaluate the state of the economy & markets:

- Economic cycle
- Individual market sector activity
- Stock volatility
- Construction cycle
- M&A Cycle



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## II. Typical M&A Process

- Identify team to run the process
  - C-Suite typically handles, even in ESOP deals
  - Board kept apprised and evaluates along the way
  - Fiduciary duties
    - Duty of care--be fully and adequately informed and act with care when making decisions and acting for the corporation.
    - Duty of loyalty--act and make decisions in the best interest of the corporation, not in their own personal interest.
  - Business judgement rule (BJR) protects directors
    - Presumption that duty of care is met if:
      - Kept informed, act in good faith and in a substantive manner reasonably believe to be in the best interests of the corporation and the corporation's stockholders.
  - Enhanced scrutiny can apply decision to sale is made
    - Same fiduciary duties; objective changes but still look at totality of circumstances in the deal(s)
    - BJR's presumption is not initially available; must act reasonably (no specific roadmap- select appropriate path to value maximize)
    - ESOP fairness opinion helps; going to market is a market check

## II. Typical M&A Process

- Market research – identify target buyers
- Create confidential Information Memorandum and Teaser
- Create valuation models and set expectations
- Contact & begin “dating ritual”
  - Confidentiality & Non-Disclosure Agreement
  - Initial introductory meetings then in-person management / strategy meetings
- Negotiate Letter of Intent/Term Sheet



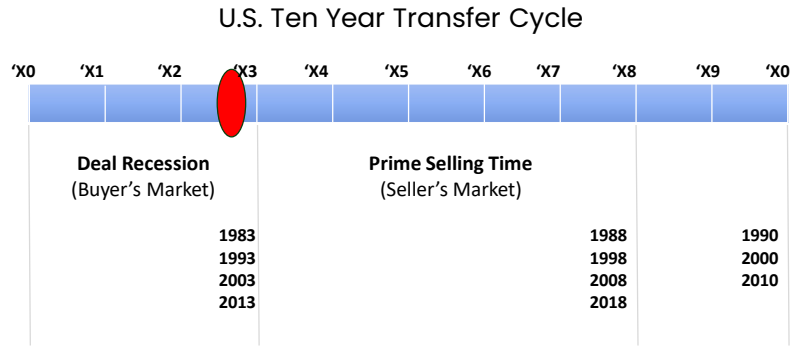
## II. Typical M&A Process

- Due Diligence
  - Initial tasks
- Legal Documents
  - Follows after diligence starts
  - Purchase Agreement, Employment Agreements, et cetera
  - Buyer's draft documents
- Integration
- Create Value

## II. Transaction Expectations

- Buyers want to Purchase Assets!
- Sellers want to Sell Stock!
  - For larger deals, stock sale typical
- Typical consideration:
  - Cash
  - Buyer stock /Rolled Equity
  - Seller financed note
- Buyers will want current management team (or next tier) in place and tied to the deal
  - Employment Agreements
  - Non-Compete & Non-Solicitation Clauses?
  - Earn-Outs
  - Stay/Retention Bonuses / Carveouts
  - Buyer Stock/Equity (incentive units or equity)
- The dating ritual and process takes longer than you think

## II. Private Market Timing



Source: Alliance of Merger & Acquisition Advisors



## Section III

### About Us & Credentials



### III. About Us & Credentials

- Matheson Financial Advisors (“Matheson Advisors”) is a boutique corporate finance and M&A advisory firm specializing in business valuations, fairness opinions, ownership transition, capital strategy planning, ESOP buy-out solutions, M&A representation, and other corporate advisory services for Architecture, Engineering, Construction Management (“AEC”), and Environmental Consulting firms.
- As Trusted Advisors, we bring clients deep and decades-long AEC industry knowledge coupled with technical finance and valuation expertise that helps our clients drive shareholder value.

#### Corporate Finance and M&A Advisory



M&A Transactions



ESOP Transactions













Ownership Transition



Valuation Advisory













### III. Recent MFA Transactions

Date	Target	Strategic Acquirer / PE Investor	MFA's Role	Target Size (employees)	Key End-Markets	Geography	Deal Highlights
August 2024			Exclusive Acquirer Advisor	20	Residential, Hospitality, Industrial Design	Southern United States	The unification of the firms will bolster KTG's presence in Texas and expand the firms' high-rise portfolio, while giving GDA access to a national network of design experts. This acquisition continues the momentum of KTG's growth trajectory.
August 2024			Exclusive Target Advisor	450	Commercial, Residential, Mixed-Use, Transportation	Western United States	This partnership will leverage LPC's resources and expertise to expand its successful business platform, enhance its service offerings and expertise to clients.
August 2024			Exclusive Target Advisor	60	Utilities, Transportation	Southeastern United States	Through this acquisition, Horrocks (backed by Trilon) has been integrating CRS' strong municipal background and heavy rail capabilities into our current service offerings.
August 2024			Exclusive Acquirer Advisor	20	Commercial, Public, Residential	Southeastern United States	This strategic move enhances WithersRavenel's service offerings and service across North Carolina, and the acquisition aligns with the vision to be the premier professional services firm in NC.
July 2024			Exclusive Target Advisor	100	Transportation	Northeastern United States	The acquisition aligns with CME's (backed by Trilon) strategic vision for growth and market leadership. Their strong presence in the public sector makes them an invaluable addition to our team.



### III. Recent MFA Transactions

Date	Target	Strategic Acquiror / PE Investor	MFA's Role	Target Size (employees)	Key End-Markets	Geography	Deal Highlights
June 2024			Exclusive Target Advisor	30	Utilities, Renewables, Energy, Industrial	Southeastern United States	The acquisition will provide growth opportunities for ASSET and bolster Qualus' power system design and analysis capabilities in the Southeast.
June 2024			Exclusive Target Advisor	33	Environmental, Drilling and Remediation	Northeastern United States	The acquisition will allow SAGE to benefit from Terracon's national resources and multidisciplinary services while enhancing Terracon's capabilities in the Northeast.
March 2024			Exclusive Target Advisor	300	Environmental, Infrastructure, Education, Commercial, Industrial	Northwestern United States	The acquisition brings expertise in engineering, surveying, UAS, health & safety, and environmental services and enhances Apex's West Region Business Unit.
February 2024	 DHUY Engineering, Inc.		Exclusive Target Advisor	100	Education, Municipal, Commercial, Industrial	Western United States	The acquisition of DEI brings specialized project management, facility, and municipal water engineering services to drive CHA's strategic growth.
December 2023			Exclusive Target Advisor	330	Energy, Transportation, Industrial, Water	Northeastern United States	The new alliance will provide additional capital and resources to support F&O's and Trilon's strategic expansion and create growth opportunities for employees.



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### III. Recent MFA Transactions

Date	Target	Strategic Acquiror / PE Investor	MFA's Role	Target Size (employees)	Key End-Markets	Geography	Deal Highlights
December 2023			Exclusive Target Advisor	100	Water/Wastewater, Electrical Infrastructure	Southwestern United States	This strategic partnership will provide growth opportunities for Wilson and continue to build Trilon's water, municipal, and disaster recovery platform and increase the footprint in the Southwest.
November 2023			Exclusive Target Advisor	100	Transportation, Water/Wastewater, Aviation	Western United States	Triunity offers program/project management and controls, construction management, and communication systems/electrical engineering services and expands Lochner's offerings to its clients across the United States.
September 2023			Exclusive Target Advisor	850	Transportation, Public Works, Telecom	Western United States	The new alliance will provide additional capital and resources to support Horrocks' and Trilon's strategic expansion and growth opportunities for employees.



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## Q & A Discussion

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This is a lot to digest and consider...What else can I tell you?

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