



# Effective M&A Strategies for A/E Firms

**Growth & Ownership Strategies Conference**

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# Speaker Introduction



Steve Gido, CFA  
[sgido@rog-partners.com](mailto:sgido@rog-partners.com)



# Agenda

- 01 ..... A/E M&A Landscape
- 02 ..... Buyer, Seller and Private Equity Views
- 03 ..... Typical M&A Process
- 04 ..... Courtship, Letter of Intent, Due Diligence, Documentation
- 05 ..... Ask Questions and Share Experiences



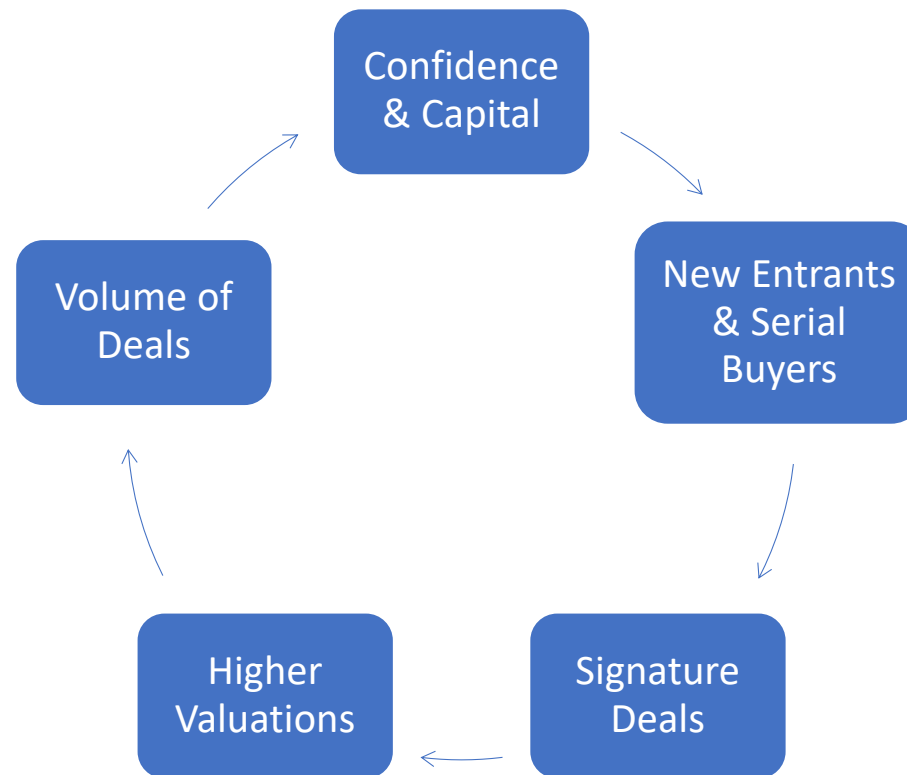


## A/E M&A Landscape



# A/E M&A Landscape

## A/E M&A 'SUPER CYCLE' ERA





# A/E M&A Landscape

## CURRENT A/E M&A CLIMATE – TEN TAKEAWAYS

- Huge seller demographics (Peak late-stage Boomers born 1960-65) intersecting with eager and confident buyers
- 2025 signature deals (Stantec - Page, Acuren - NV5, AtkinsRéalis Group - David Evans, Egis - Lochner, etc.)
- Higher valuations for well-positioned targets
- 20 “serial” buyers (4+ deals/2025) comprise 24.7% of YTD transactions
- Peer pressure for sellers and buyers on the sidelines? Confronting higher aggregate industry (design, consulting) revenue with fewer firms (!)

# A/E M&A Landscape

## CURRENT A/E M&A CLIMATE – TEN TAKEAWAYS

- Private equity still in the early innings (20% of ENR 250!)...new formations, second recapitalizations/exits, and small bolt-on deals
- First-time and infrequent strategic buyers have emerged
- Set-aside firms (MBE, WBE, DBE, Veteran, etc.) and regulatory changes will increase supply
- Heightened deal sophistication and complexity (tax, legal)
- Integrations = candidly...some great / some dreadful

# A/E M&A Landscape

## M&A ENVIRONMENT

Year	# of Transactions	% Gain
<i>YTD 10/25</i>	<b>477</b>	<b>5.3%</b>
<b>2024</b>	<b>519</b>	<b>12.8%</b>
<b>2023</b>	<b>460</b>	<b>-6.7%</b>
<b>2022</b>	<b>493</b>	<b>2.9%</b>
<b>2021</b>	<b>479</b>	<b>54.0%</b>
<b>2020</b>	<b>311</b>	<b>-9.9%</b>
<b>2019</b>	<b>344</b>	<b>9.2%</b>
<b>2018</b>	<b>315</b>	<b>26.0%</b>



# A/E M&A Landscape

## M&A ENVIRONMENT

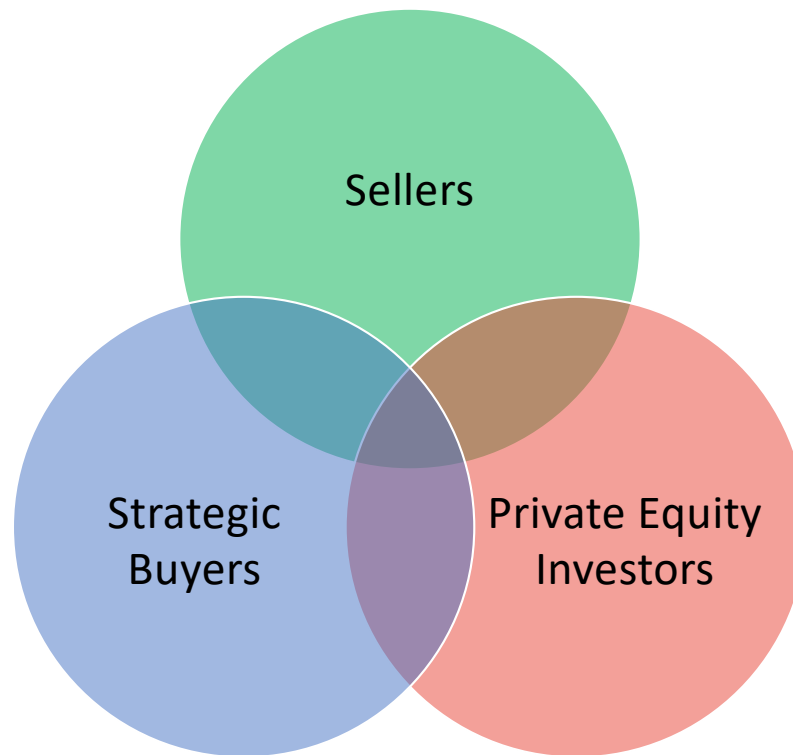
Target Staff	# of YTD Transactions	% of Total
<b>1-10</b>	<b>150</b>	<b>31.4%</b>
<b>11-25</b>	<b>128</b>	<b>26.8%</b>
<b>26-50</b>	<b>81</b>	<b>17.0%</b>
<b>51-100</b>	<b>56</b>	<b>11.7%</b>
<b>101-500</b>	<b>50</b>	<b>10.5%</b>
<b>500+</b>	<b>12</b>	<b>2.5%</b>

Median buyer size = 520 employees

Median seller size = 22 employees

# A/E M&A Landscape

## INTERSECTION



# A/E M&A Landscape

## A/E SELLERS

- “No one here wants to buy me out” + inverted shareholder pyramids
- Older partners, concentrated blocks of stock, lack of buyers, higher internal valuations (affordability) and succession issues
- Generational attitudes towards ownership
- Buyers have resources (recruiting, IT, admin, marketing, financial)
- Great climate to explore selling = strong 5-year performance; valuations are attractive; plentiful buyer options; tax laws favorable; what’s next for the 2026 economy?

# A/E M&A Landscape

## SELLER RATIONALE

- What's my legacy?
- Higher valuation than internal sale
- Accelerated liquidity
- Wealth / estate / retirement planning
- Enhanced career opportunities & benefits for staff
- Expanded offerings (services, geographic reach) to clients
- Are all owners on the same page?



# A/E M&A Landscape

## A/E STRATEGIC BUYERS

- Strong balance sheets and capital to put to work
- May not be able to match private equity valuation multiples (due to ESOP, internal valuation, goals, etc.) but try to sell on culture
- Generally, will do 1 deal every 12-18 months
- Often are buyers for smaller target firms
- Geography – Seek “Local” or “Destination” deals?
- Chief Growth / Strategy Officers now prevalent (incl: M&A role)

# A/E M&A Landscape

## A/E FIRMS – FIVE KEY USES OF CASH

- Working capital
- Capital investments
- Repurchase obligations
- Incentive compensation
- Return on investment



*As a buyer, where does M&A fit? How do you determine risk & reward?*

*Do some years have priorities over others (investment vs. returns?)*

# A/E M&A Landscape

FOR STRATEGIC BUYERS...WHAT M&A IS NOT

**A silver bullet to other  
organizational problems**

**Does not resolve buyer  
succession or ownership  
issues**

**Does not solve buyer  
profitability or cultural issues**

**Undisciplined M&A rarely  
works!**

# A/E M&A Landscape


## PRIVATE EQUITY

- Finance professionals who raise capital from high net worth individual and families, institutions, pensions, endowments and invest in established businesses (*not venture capital*)
- Tremendous amount of capital in seeking higher returns
- PE investors love the A/E and environmental “narrative” of infrastructure renewal, environmental stewardship (+ debt capacity)
- Seeing PE investing in accounting, recruiting, marketing, brokerage and other professional services industries
- Why? “*We didn’t want to do an ESOP or sell to a massive firm*”



# A/E M&A Landscape

## PRIVATE EQUITY

- Typical approach:
  1. Acquire majority stake in A/E firm for cash and “rollover equity” as growth currency
  2. Enter investment at entry point EBITDA multiple
  3. PE groups fund with mix of cash and debt
  4. Grow EBITDA +  multiple expansion w/size & exit to a new sponsor in a few years
- Have been aggressive hirers of executive talent!
- Exist in every A/E discipline (civil, geotech/testing, MEP, forensics, power, surveying, environmental, architecture, CM/PM, etc.)
- Traditional A/E platform firms and “family of brands” models now prevalent



## M&A Process



# M&A Process

## TYPICAL STEPS



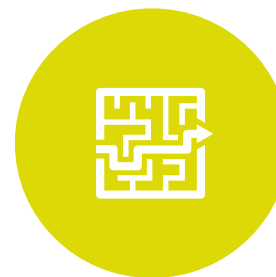
**Courtship**



**Letter of Intent**



**Closing**



**Integration**

**This Phase: 6 to 12 Months**



# M&A Process

## COURTSHIP – TO BE OR NOT TO BE?

- Both sides assess cultural issues (likeability, fit, etc.) alongside initial business/risk and operations/clients, financial review – who is involved?
- Why are you talking to me? How do we help one another? Intent?
- Is this a formal sale process (teaser, CIM, IOIs, phases, LOI, etc.)?
- Execute NDA; review financial / operational materials
- Red flags? Deal breakers?
- Keep talks moving with milestones – in or out?



# M&A Process

## COURTSHIP –TYPICAL BUYER ROLES

- CEO/President – the “Champion”
- CFO/Controller – the “Skeptic”
- COO/EVP – the “Integrator”
- Business Line SVP/VP – the “Owner” of the deal
- Functional - Growth/Strategy Officer, Human Resources, Marketing and IT Professionals – the “Happy Faces”
- Former Sellers/Owners now Buyer leaders – “We were in your shoes...”

# M&A Process

## COURTSHIP – EARLY CHALLENGES

- Super profitable firms (25%+ EBITDA margins)
- “Hockey stick” growth firms (sustainable?)
- Distressed/Under-performing firms (Why/How?)
- Lifestyle firms
- Set-aside or Family firms
- Sole owner/Partners with 2nd tier motivations unknown
- Multiple partners with multiple agendas
- Insincere buyers and “tire kickers”

# M&A Process

## COURTSHIP – CULTURAL FIT





# M&A Process

## HOW TO DEFINE FIRM CULTURE?

- Collegial and collaborative
- Hard-charging (“work-hard / play hard”)
- Independent
- Family-oriented
- Bottom-line focus
- Differences by firm size, region, discipline, clients
- Many firms assume the “ethos” of the founders
- #1 deal breaker!



# M&A Process

## WHAT DRIVES A/E VALUATIONS?

- Firm size
- Growth trends
- Profitability margins
- Consistency or variability?
- Mix of clients (public vs. private) and client concentration
- Type of services
- Geography
- Age and number of owners
- “Adjustments” to EBITDA (excess owner comp, one-time costs))
- Any special certifications (MBE, WBE, 8(a), Veteran, SBE)

# M&A Process

## INITIAL TARGET FINANCIAL & OPERATIONAL OBSERVATIONS

- Financial statements are the firm's report card!
- Is revenue trending up or down? Why?
- Concentration of clients or projects?
- KPI drivers of profits and performance?
  1. Multiplier (pricing power!)
  2. Low overhead (running lean?)
  3. High utilizations/chargeability (sweat shop?)
  4. Public vs. private work and margins
- Compensation of owner(s) and staff? Compatible to Buyer?
- Balance sheet concerns (debt, old A/R, equipment age)



# M&A Process

## EBITDA ASSESSMENT

<b>Gross Fee Revenue</b>	<b>\$ 12,000.0</b>	<b>115.0%</b>
Less: Subconsultants & Reimb. Expenses	(1,565.0)	-15.0%
<b>Net Service Revenue</b>	<b>10,435.0</b>	<b>100.0%</b>
Direct Labor	5,275.0	50.6%
Indirect Labor	1,225.0	11.7%
Payroll Taxes & Benefits	475.0	4.6%
Depreciation	155.0	1.5%
Rent	400.0	3.8%
Other Operating Expenses	1,650.0	15.8%
<b>Total Expenses</b>	<b>9,180.0</b>	<b>88.0%</b>
<b>Operating Income (EBIT)</b>	<b>1,255.0</b>	<b>12.0%</b>
Interest Expense (net)	75.0	0.7%
<b>Net Income</b>	<b>1,180.0</b>	<b>11.3%</b>
Operating Income (EBIT)	1,255.0	12.0%
Add: Depreciation	155.0	1.5%
Addbacks: Adjusted Owner Comp	400.0	3.8%
<b>Adjusted EBITDA</b>	<b>\$ 1,810.0</b>	<b>17.3%</b>

# M&A Process

## TYPICAL A/E SALE MULTIPLES

Factor	Multiple Range
Net Revenue	60.0 – 100.0%
EBITDA	4.0 - 7.0x
Total Staff	\$80,000 - \$150,000
Shareholder's Equity	2.5 – 4.5x

*Consider: last year / recent period of performance, multiple years, and current forecast / projection!*



## Letter of Intent







# Letter of Intent

## LETTER OF INTENT

- Clarifies and memorializes material terms of the proposed transaction before more time, money, and energy are spent during due diligence
- Establishes exclusivity and sets target closing date
- Includes binding and non-binding provisions
- Sets the stage – opportunity to uncover and resolve (or not) dealbreakers
- May be more detailed than Indication of Interest (IOI); beware verbal ranges and expressions

# Letter of Intent

## LETTER OF INTENT

### *Transaction Structure*

- Different structures (asset vs. stock purchase) have advantages and disadvantages – Buyers and Sellers need to understand these before they sign LOI
- Cash-free, debt-free basis

### *Purchase Price*

- Mix of consideration – cash, promissory note, stock/rolled equity and/or earnout
- Consideration can depend on capitalization of buyer and goals/ages of sellers

# Letter of Intent

## LETTER OF INTENT

### *Employment*

- Who will receive employment agreements (typically sellers and key employees); LOI stage or need more in due diligence?
- Retention mechanisms for Seller's employees (make whole process, retention bonus, grant of incentive units, equity and buy/sell agreement guideline)
- Financial impact of termination – for cause, not for cause, etc.

# Letter of Intent

## LETTER OF INTENT

### *Legal Considerations:*

- Sell-side: consider consequences of rolled equity/Buyer stock
- Deal exclusions (retained liabilities, excluded assets, etc.)
- Restrictive covenants
- Exclusivity
- Insurance Options

# Letter of Intent

## LETTER OF INTENT

### *Net Working Capital (NWC)*

- Buyers are entitled to working capital as part of the acquisition of the Sellers' firm
- Significant financial implications to both parties
- Target NWC
- Agree on definition and methodology (historical balance sheets, other considerations)
- Post-closing reconciliation period and adjustment (\$ for \$) to the purchase price



# Letter of Intent

## LETTER OF INTENT

### *Binding Provisions:*

- Exclusivity
- Confidentiality
- Payment of expenses
- Termination
- Governing Law & Dispute Resolution

### *Non-Binding Provisions:*

- All others



## Diligence, Closing & Integration





# Closing

## DEAL STRUCTURES

- Acquisitions – one firm buys another
  - Asset Purchase
  - Stock/Equity Purchase
    - 338(h)(10) election
    - F-Reorganization
- Merger – two firms combine into one



# Closing

## ASSET VS. STOCK PURCHASE

- *Asset* → Buyer purchases assets (A/R, contracts, client lists, equipment, intellectual property, goodwill, etc.)
  - Purchase price paid to Seller
  - Seller entity typically dissolves within 1-5 years of closing
- *Stock* → Buyer purchases stock (corporation) or membership interest (LLC)
  - Purchase price paid to Seller's shareholders/members
  - Seller entity continues to operate with Buyer as its new owner



# Closing

## ASSET PURCHASE

### Advantages

- Buyer:
  - Tax advantages – buyers “step-up” their depreciable basis in the purchased assets
  - No assumption of unknown/undisclosed liabilities
- Seller:
  - Seller can retain ownership of assets not sold/transferred as corporate existence is maintained (office building)



# Closing

## ASSET PURCHASE

### Disadvantages

- Time consuming and expensive – contract assignment and third party consents
- Financial disadvantages for Seller:
  - Tax consequences - possible double taxation
    - Ordinary income vs. capital gains
  - Tail insurance and payment of accrued PTO
- Registration & Licensure Compliance
- Employees of Seller must be hired/on-boarded by Buyer (offer letters, benefits, 401k rollover, bonuses)



# Closing

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# Closing

## STOCK PURCHASE

### Advantages and Disadvantages

- Speed and simplicity – corporate structure of Seller remains intact.
- No transfer of assets, onboarding of employees, or assignment of contracts (unless change in control = assignment).
- Tax:
  - Selling shareholders/members receive capital gains tax treatment (cost basis?)
  - Buyers cannot step up basis in acquired assets

# Closing

## DUE DILIGENCE

- Data room and file transfer sharing – back & forth process of Q&A + understanding
- Financial records
- Backlog and A/R
- Project profitability
- Assignability of contracts
- Personnel issues
- Claims/lawsuits
- Tax issues/liabilities
- Benefits/systems compatibility
- Two-way diligence street! (Seller must reaffirm!)
- “QofE” – Quality of Earnings reports: 3rd party financial analysis

Validating purchase price – goal is no surprises or adjustments!



# Closing

## DOCUMENTS

- Purchase Agreement
  - Outlines the basic terms of the deal (representations, indemnification restrictive covenants)
- Disclosure Schedules
- Employment and Noncompete Agreement(s)
  - Term, termination, restrictive covenants, severance
- Ancillary Documents (Closing Memorandum, Bill of Sale, Assignment & Assumption Agreement(s), Secretary's Certificate)



# Closing

## TRANSACTION TIPS

### Sellers

- Make your firm sale-ready (registration & licensure compliance, corporate docs, financials)
- Don't wait to involve your advisors
- Weigh culture fit when deciding on a Buyer

### Buyers

- In a competitive market, listen to the target's goals and be creative in structuring deals
- Come to the table with a solid integration plan
- Drive momentum & incentivize retention



# Integration

## INTEGRATION – THE FINAL FRONTIER

Planning starts even in advance of first courtship meeting – where does the target “fit”?

Stand-alone or integrate? Slow or quick approach? It depends...think what could go wrong!

### Operational Tasks (Communicate!) & Combined Teams

- Roles/Reporting
- Benefits/Payroll
- Branding/Marketing
- Accounting/Financial/IT Systems
- Publicity – clients, subs, etc.
- Change is hard in “anxious times” – reassure and champion (both buyer & seller job)!
- Efforts takes time & patience – melding cultures and styles!
- Happily ever after? Measure success? “Working together is the best first step”

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Q&A