



# Valuation and Ownership Transition Trends for A/E Firms

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# Speaker Introductions



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An aerial photograph of the ocean surface, showing a dense pattern of white, frothy waves against a deep blue background. The waves are breaking in a somewhat chaotic but rhythmic manner, creating a complex, organic texture.

# Agenda

- 01 : Valuation Trends
  - 02 : Trends in M&A Activity &  
Deal Structures in 2024
  - 03 : Getting “Transition Ready”
  - 04 : Ownership Transition Structures
  - 05 : Ask Questions and Share  
Experiences
- 
- A horizontal bar with a gradient from dark green on the left to dark blue on the right.



# Definitions

## Fair Market Value

*“The price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the relevant facts.”*

*U.S. Treasury regulations relating to Federal estate taxes [26 C.F.R. §20.2031-1(b)]*



# Definitions

## Enterprise Value

Value of the business irrespective of capitalization  
(debt levels, undistributed cash, non-operating assets)

In mergers & acquisitions, often referred to as “cash-free / debt-free”





# Definitions

## Equity Value

Value of the business net of debt, and inclusive of non-operating assets, including all cash & equivalents balances



# Definitions

## Valuation Multiples

- Percentage of Revenue (NSR)
- Multiple of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
- Multiple of Earnings Before Interest & Taxes (EBIT)
- Earnings and Revenue typically based on Trailing Twelve Months (TTM) of operations

# Definitions

## Levels of Value

**CONTROLLING INTEREST VALUE**

Control Premium



Minority Interest  
Discount



**MARKETABLE MINORITY  
INTEREST VALUE**



Marketability  
Discount

**NON-MARKETABLE MINORITY  
INTEREST VALUE**





# Valuation Trends

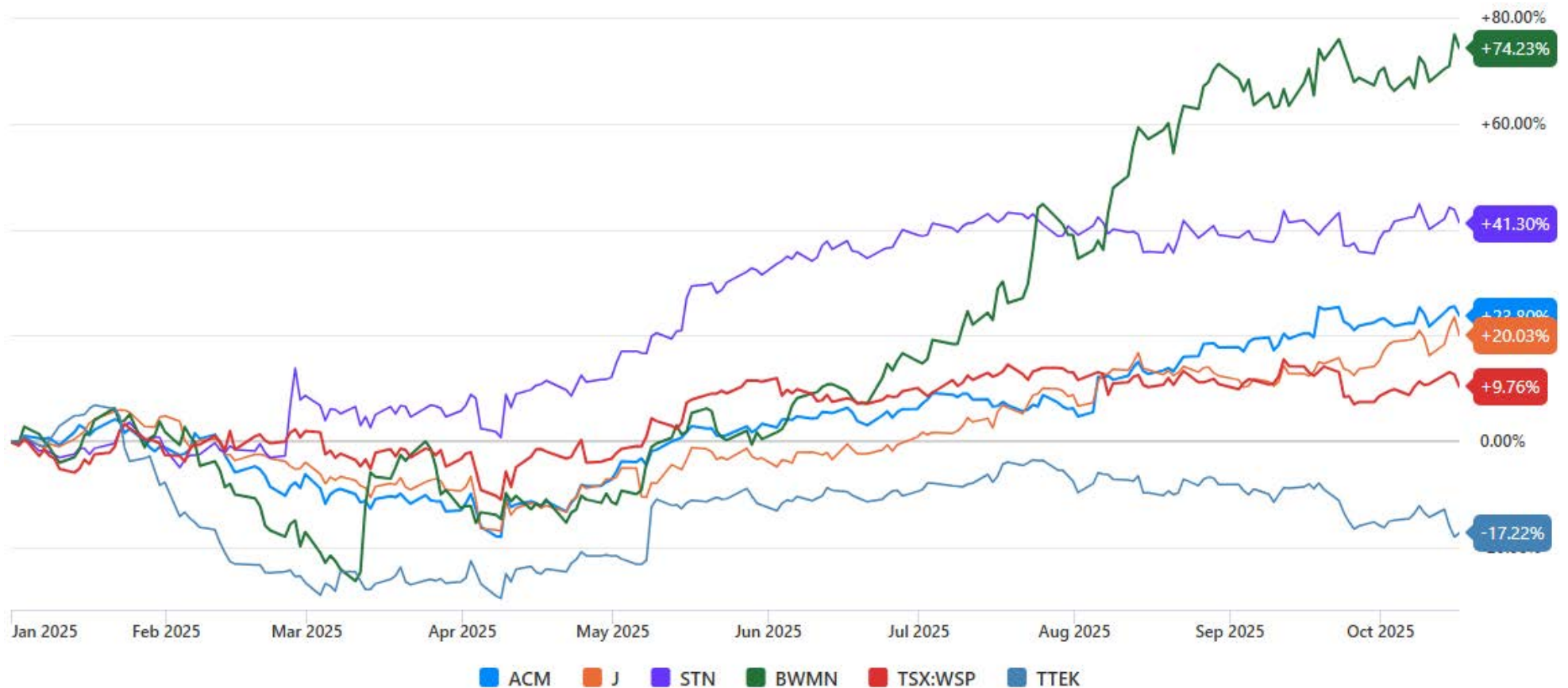
Minority Interest (internal OT)

ESOP Valuations

Controlling Interest (M&A)

# Valuation Trends

## Public Market Trends





# Valuation Trends

## Price to Earnings (PE) Ratios (on TTM)

Company	Ticker	PE Ratio
<b>AECOM</b>	<b>ACM (NYSE)</b>	<b>26.4x</b>
<b>Jacobs Solutions</b>	<b>J (NYSE)</b>	<b>40.6x</b>
<b>Stantec</b>	<b>STN (NYSE/TSX)</b>	<b>41.6x</b>
<b>Bowman Consulting</b>	<b>BWMN (Nasdaq)</b>	<b>67.8x</b>
<b>WSP Global</b>	<b>WSP (TSX)</b>	<b>45.3x</b>
<b>Tetra Tech</b>	<b>TTEK (Nasdaq)</b>	<b>40.3x</b>

Source: Yahoo!Finance. Pricing as of October 29, 2025

# Valuation Trends

## Non-marketable Minority Interests

### Enterprise Value / Pre-Owners' Bonus EBIT

	All Firms	Engineering & E/a	Architecture & A/e	Environmental Consulting
Median	4.08 x	4.35 x	3.80 x	4.77 x
Mean	5.31 x	5.26 x	4.60 x	6.00 x
Trimmed Mean	5.14 x	5.08 x	4.45 x	6.00 x
Upper Quartile	7.44 x	7.17 x	5.84 x	8.85 x
Lower Quartile	2.71 x	2.66 x	2.29 x	3.40 x

Source: A/E Business Valuation and M&A Transactions Study ([www.rog-partners.com](http://www.rog-partners.com))



# Valuation Trends

## Non-marketable Minority Interests

### Enterprise Value / Net Service Revenue

	All Firms	Engineering & E/a	Architecture & A/e	Environmental Consulting
Median	51.4%	48.2%	57.9%	46.1%
Mean	58.5%	54.3%	66.0%	57.5%
Trimmed Mean	56.0%	52.4%	64.3%	55.8%
Upper Quartile	70.1%	67.3%	77.8%	71.0%
Lower Quartile	38.3%	38.1%	48.3%	34.1%

Source: A/E Business Valuation and M&A Transactions Study ([www.rog-partners.com](http://www.rog-partners.com))

# Valuation Trends

## ESOP Valuations

### Enterprise Value / Net Service Revenue

ESOP-Sponsoring Companies	Multiple
Median	53.3%
Mean	58.4%
Trimmed Mean	57.4%
Upper Quartile	70.2%
Lower Quartile	44.1%

### Enterprise Value / Pre-Owners' Bonus EBIT

ESOP-Sponsoring Companies	Multiple
Median	6.86 x
Mean	8.06 x
Trimmed Mean	7.71 x
Upper Quartile	10.65 x
Lower Quartile	3.78 x

Source: A/E Business Valuation and M&A Transactions Study ([www.rog-partners.com](http://www.rog-partners.com))

# Valuation Trends

## Optimizing Your Firm's Value

- Increasing earnings is the ultimate driver (through revenue growth, profit optimization, or both)
- Reducing earnings volatility
- Mitigating risk factors through:
  - Diversification of revenue by client type, geographic markets, public vs. private sector
  - Strengthening your management bench
  - Improving financial management and reporting
  - Improving collections and cash flow

# Valuation Trends

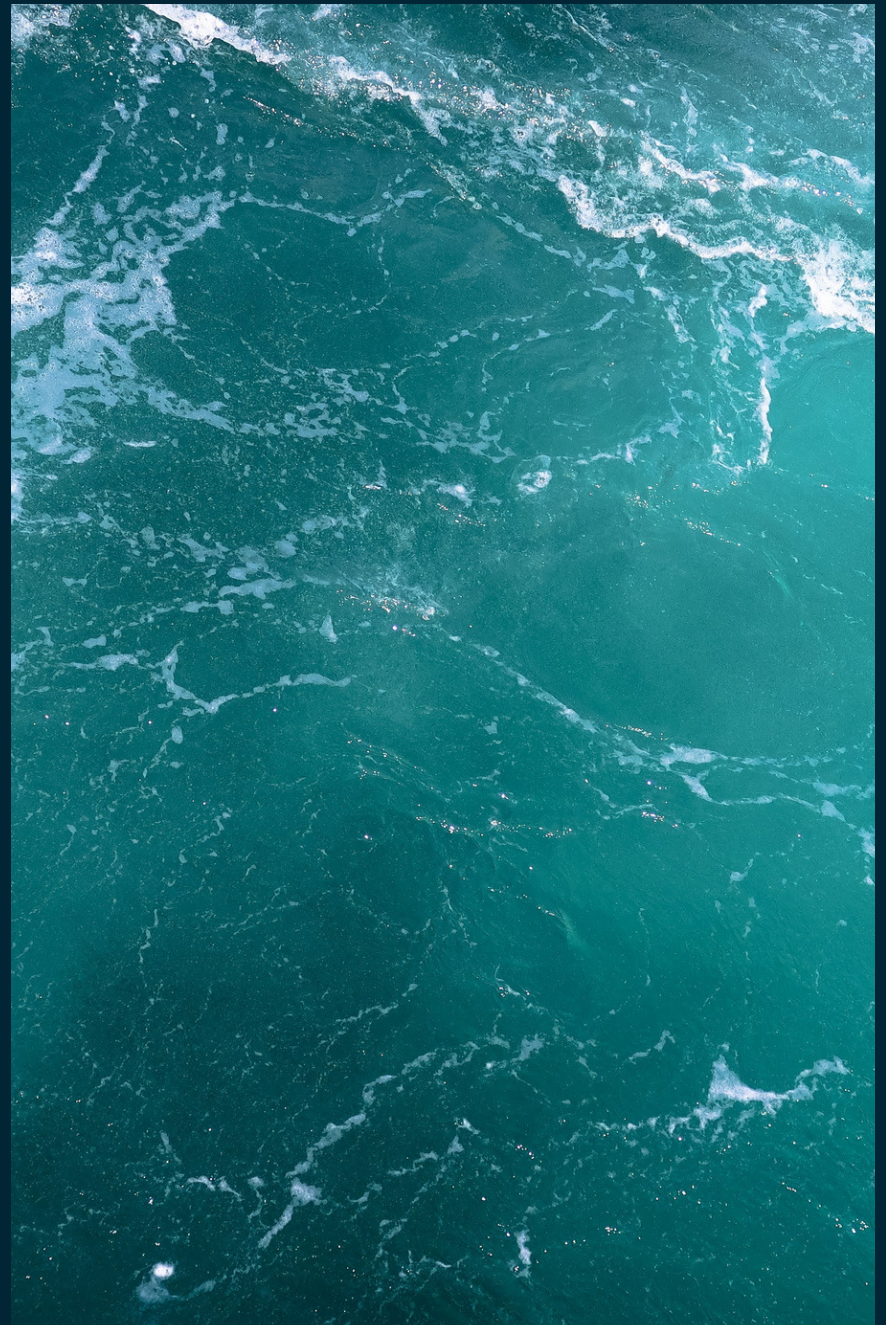
## Optimizing Your Firm's Value (continued)

- Build internal demand for shares
- Improve and demonstrate liquidity for exiting shareholders



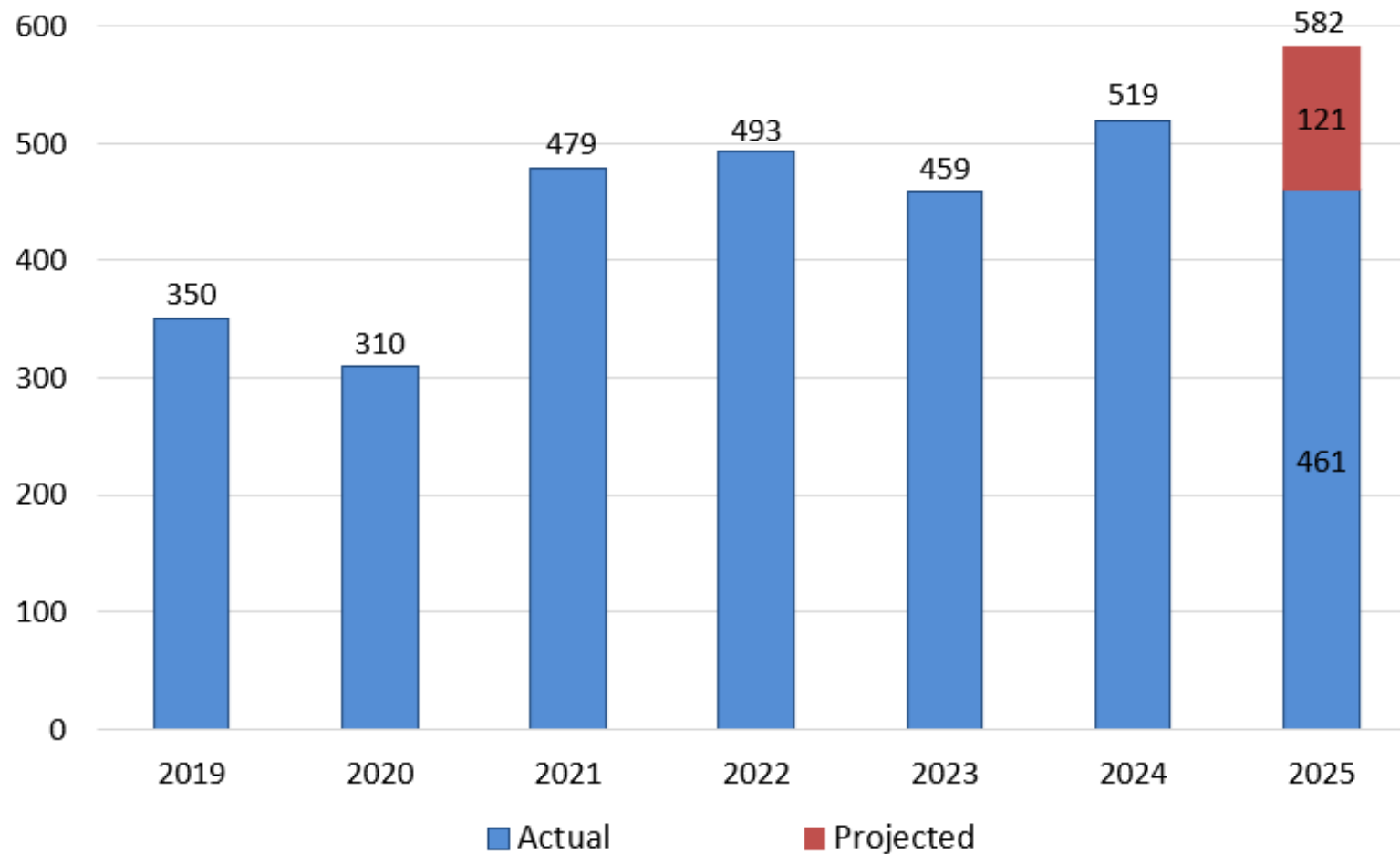
# Trends in M&A Activity & Deal Structures

Despite economic  
headwinds, industry  
consolidation continues



# M&A Activity

## M&A Deal Activity in 2025





# M&A Activity

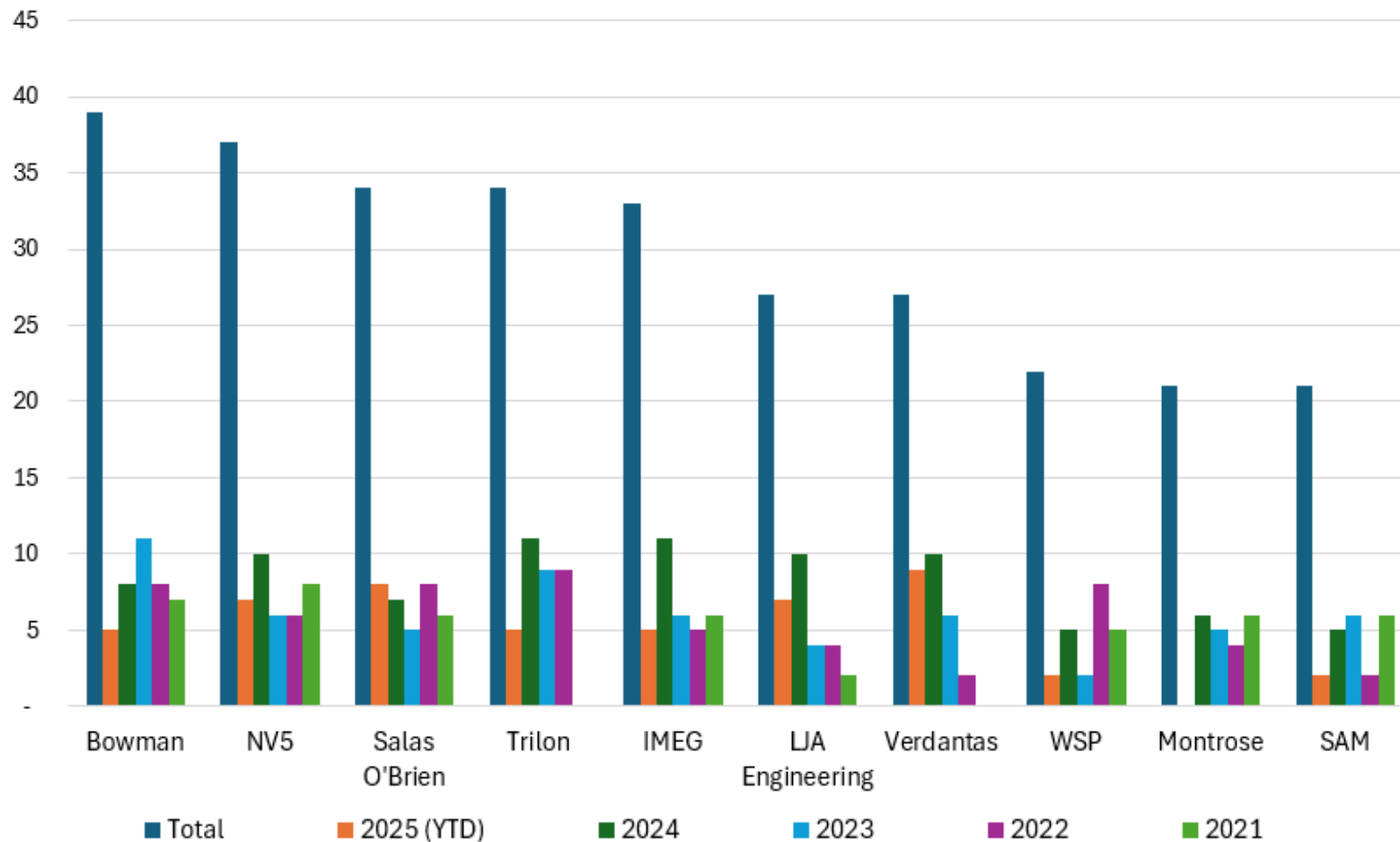
## Overall M&A Activity Continues to be Robust

- Deal activity trending toward another record year
- Median buyer size 508 employees (average of 3,077)
- Median seller size 22 employees (average of 84)
- Activity driven by combination of PE backed strategics, publicly traded firms, and larger independent firms



# M&A Activity

## M&A Deal Activity in 2025





# M&A Activity

## Controlling Interest Valuations

Enterprise Value	EBITDA Multiple	EBIT Multiple
2025	5.3x	5.6x
2024	5.5x	5.6x
2023	5.3x	6.3x
2022	5.4x	5.5x
2021	4.8x	5.1x
Last Five Years	5.26x	5.62x

Sources: ROG independent research, and BVR Deal Stats

# M&A Activity

## Controlling Interest Valuations

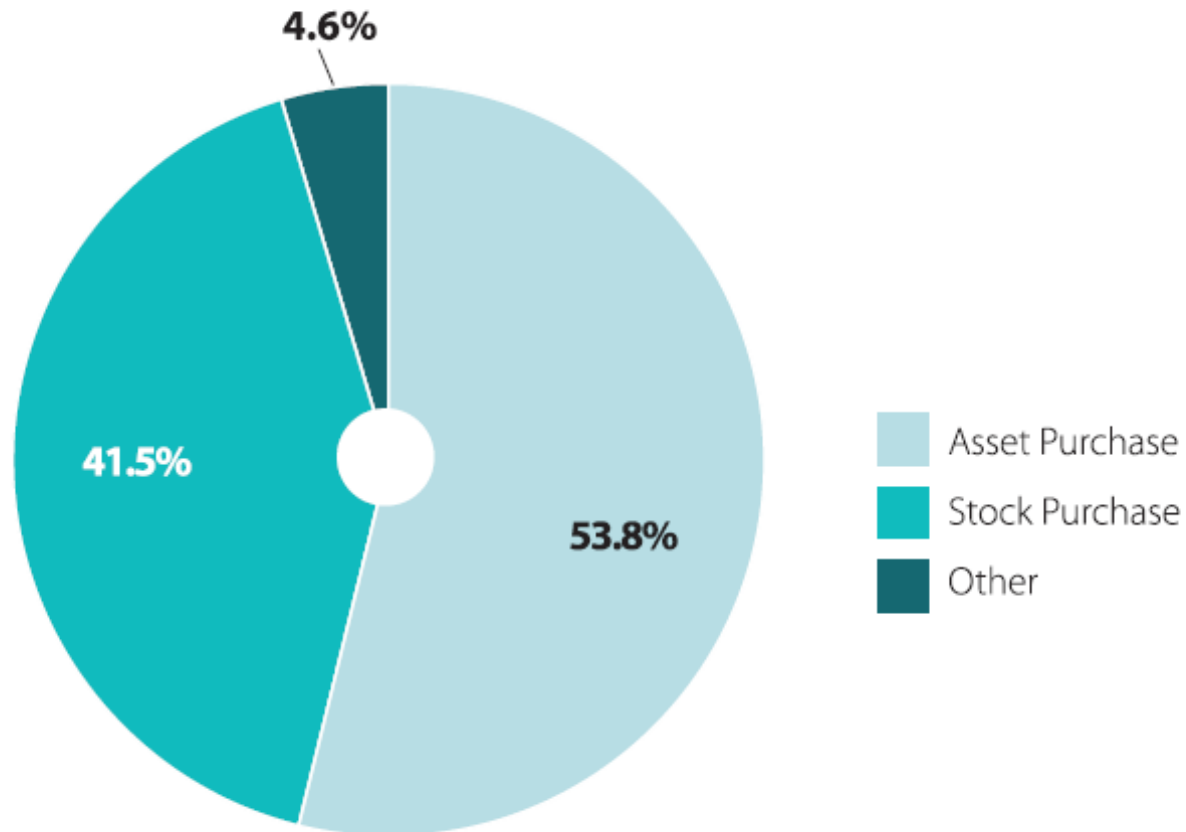
Gross Revenue	EBITDA Multiple	EBIT Multiple
Over \$100M	<b>11.4x</b>	<b>15.7x</b>
\$50M to \$100M	<b>9.2x</b>	<b>10.3x</b>
\$10M to \$50M	<b>7.5x</b>	<b>7.8x</b>
\$2.5M to \$10M	<b>5.2x</b>	<b>5.4x</b>
Under \$2.5M	<b>3.1x</b>	<b>4.0x</b>

Sources: ROG independent research, and BVR Deal Stats

# M&A Activity

## M&A Deal Structures

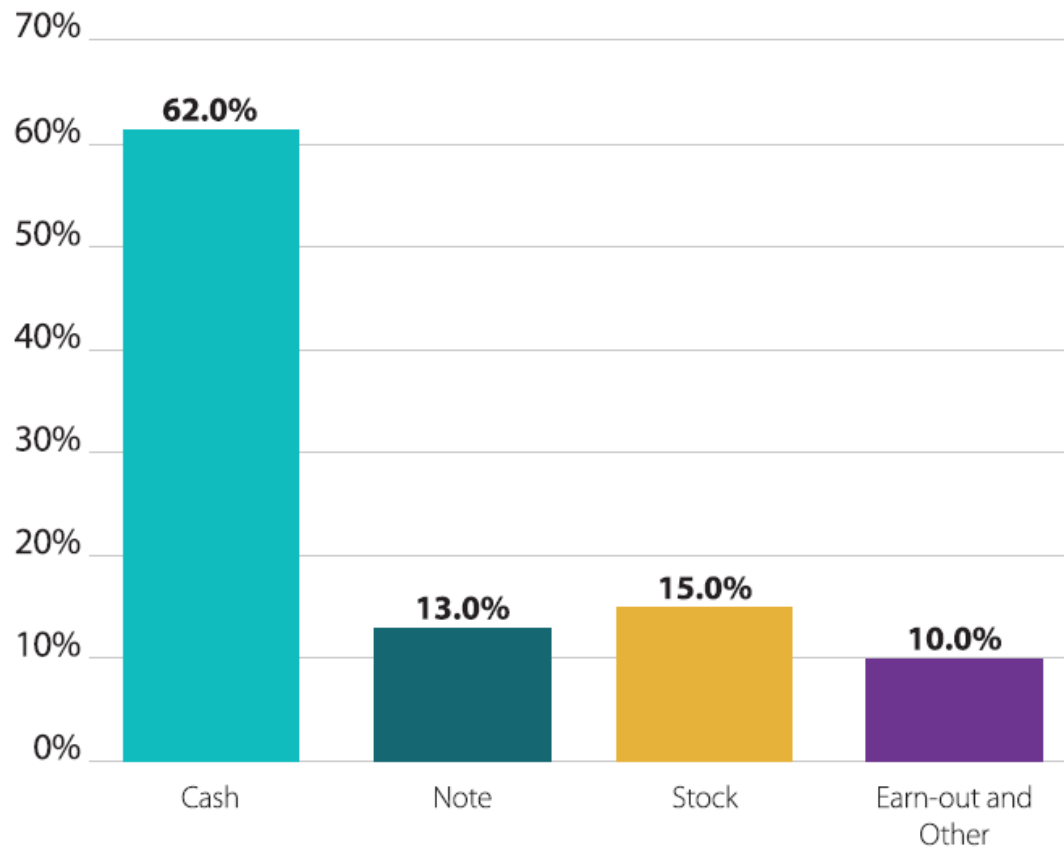
M&A Deal Structures



# M&A Activity

## M&A Deal Structures

### Forms of Consideration Paid







# Getting Transition Ready

How to optimize your marketability and value



# Preparing for Transition

## Optimize Value and Marketability

- Clean up your financial reporting!!!
  - Be able to produce accurate, accrual-basis P&Ls and balance sheets on a monthly basis
- Develop and maintain an annual budget or forecast
- Create a five-year strategic plan, with specific financial goals (revenue and earnings targets) and tactical actions to achieve them
- Focus on consistent and strong earnings (median EBITDA margin on net revenue ~ 15%)



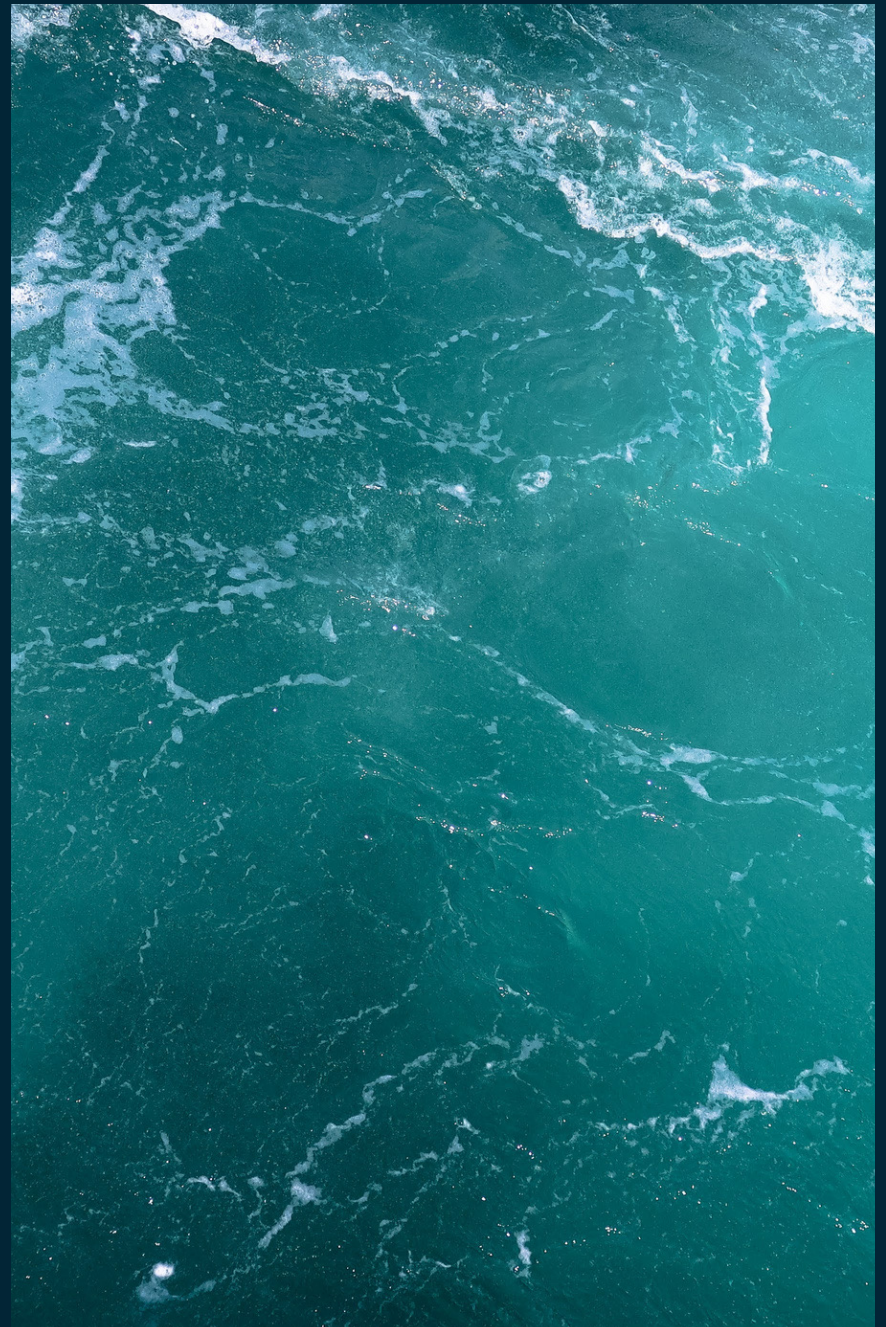
# Preparing for Transition

## Optimize Value and Marketability

- Identify and quantify extraordinary and non-recurring expenses
- Isolate any unusual owner perquisites and benefits
- Invest in the professional development of your management team
- Don't wait until you're nearing retirement to initiate a transition (internal or external)



# Ownership Transition Structures







# Ownership Transition

## Why is Ownership Planning Important?

- Ensuring shareholder liquidity requires long-term planning
  - More shareholder agreements are requiring mandatory redemptions at a certain age
  - More companies are increasing key employee participation in their ownership plans
  - Second generation and beyond are encouraging ownership parity

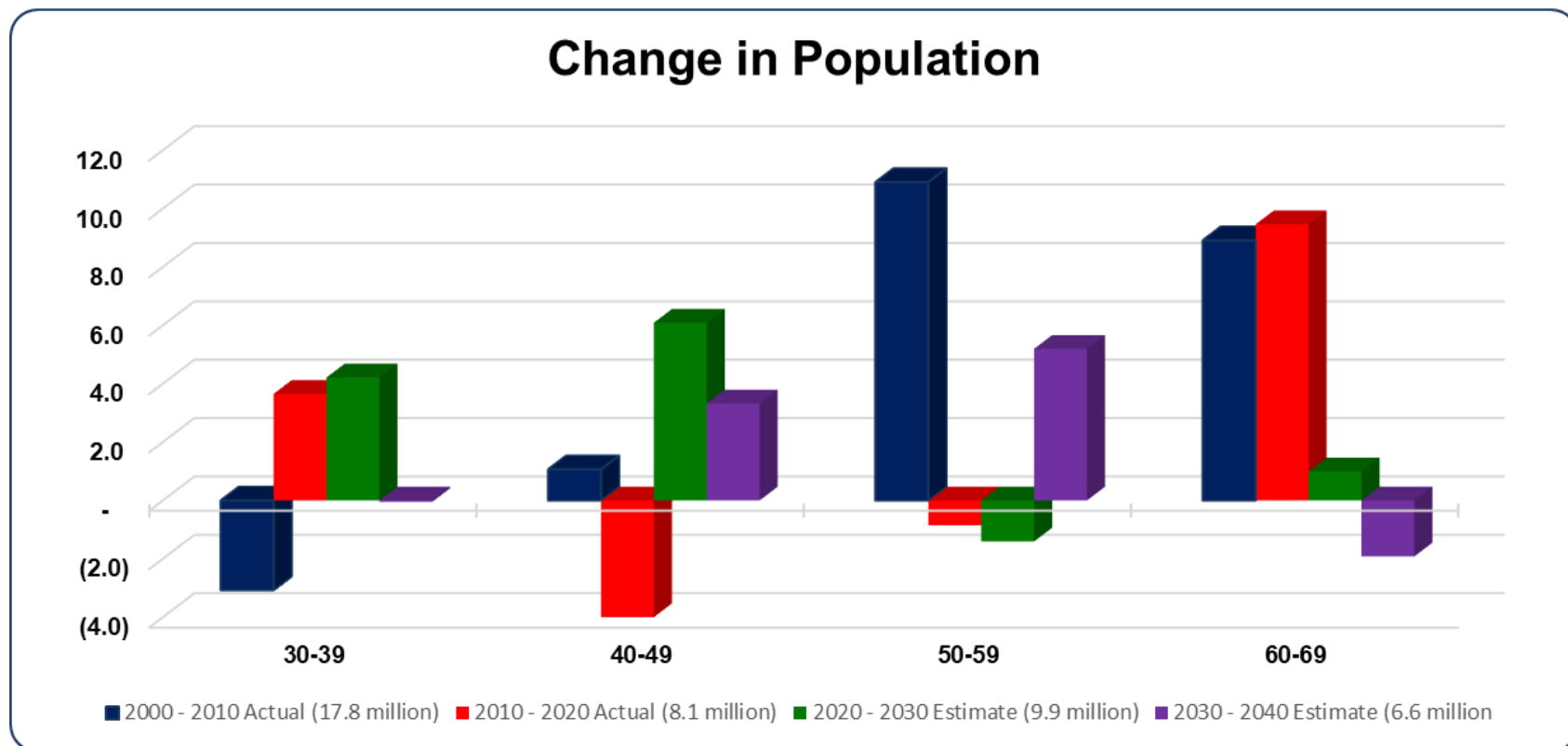
# Ownership Transition

## Why is Ownership Planning Important?

- Defining what your ownership means
  - Investment?
  - Compensation?
  - Voice at the table?
- Where are your returns?
  - Current (dividends)
  - Long-term (capital appreciation)
- What is your end game for ownership planning?
  - What does your ownership look like ten years from now?
  - How many shareholders are needed?

# Ownership Transition

## Impact from Change in Demographics





# Ownership Transition

## Common types of ownership structures

- Management Ownership
- Employee Ownership
- Employee Stock Ownership Plans (“ESOPs”)

*Your ownership structure should mirror your corporate values*



# Ownership Transition

## Management Ownership

- Ownership held by senior management only
- Concentration of ownership
  - Principals/Key employees
  - “Invited” to be an owner
  - Common in small firms
- Reduces liquidity – *How does this impact value?*
- Compensation characteristics
- Discriminatory

# Ownership Transition

## Employee Ownership

- Common model with larger firms
- Increases liquidity
- Challenges in attracting shareholders
  - Feasibility
  - C-Corp vs S-Corp
  - What's in it for them?
- Ownership is carefully allocated
- Discriminatory

# Ownership Transition

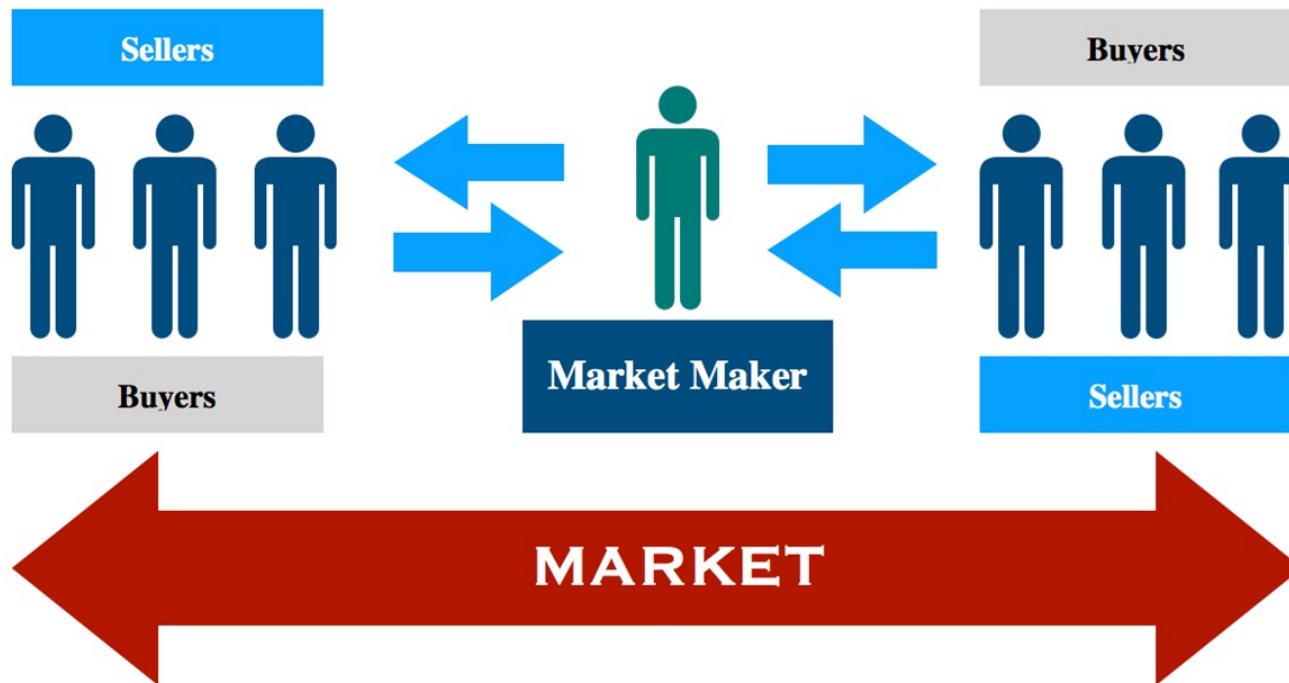
## Employee stock ownership plans - ESOP

- Qualified retirement savings plan under IRC section 401(a)
- Employees are NOT shareholders
- Non-discriminatory
- Most tax efficient for ownership transfers
  - S-Corp vs C-Corp

# Ownership Transition

## Creating shareholder liquidity

- Where does the money come from?

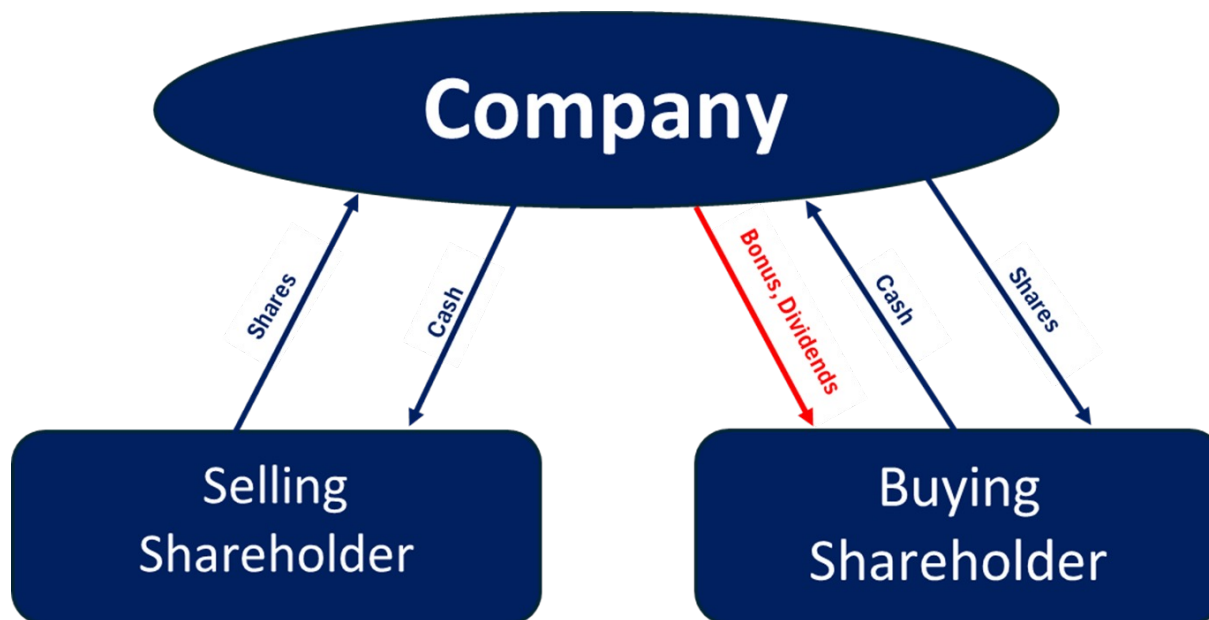




# Ownership Transition

## Creating shareholder liquidity

- Where does the money come from?



# Ownership Transition

## Five key uses of cash

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

# Ownership Transition

## What's the cost of redeeming shares?

The hidden cost of redeeming shares are **TAXES**. The location of your company will impact how much more cash flow (over the cost of the shares) you need to generate to satisfy your repurchase obligation.

- |                                 |        |
|---------------------------------|--------|
| • No State Income Taxes         | 133.0% |
| • Average State Corporate Taxes | 137.5% |



# Ownership Transition

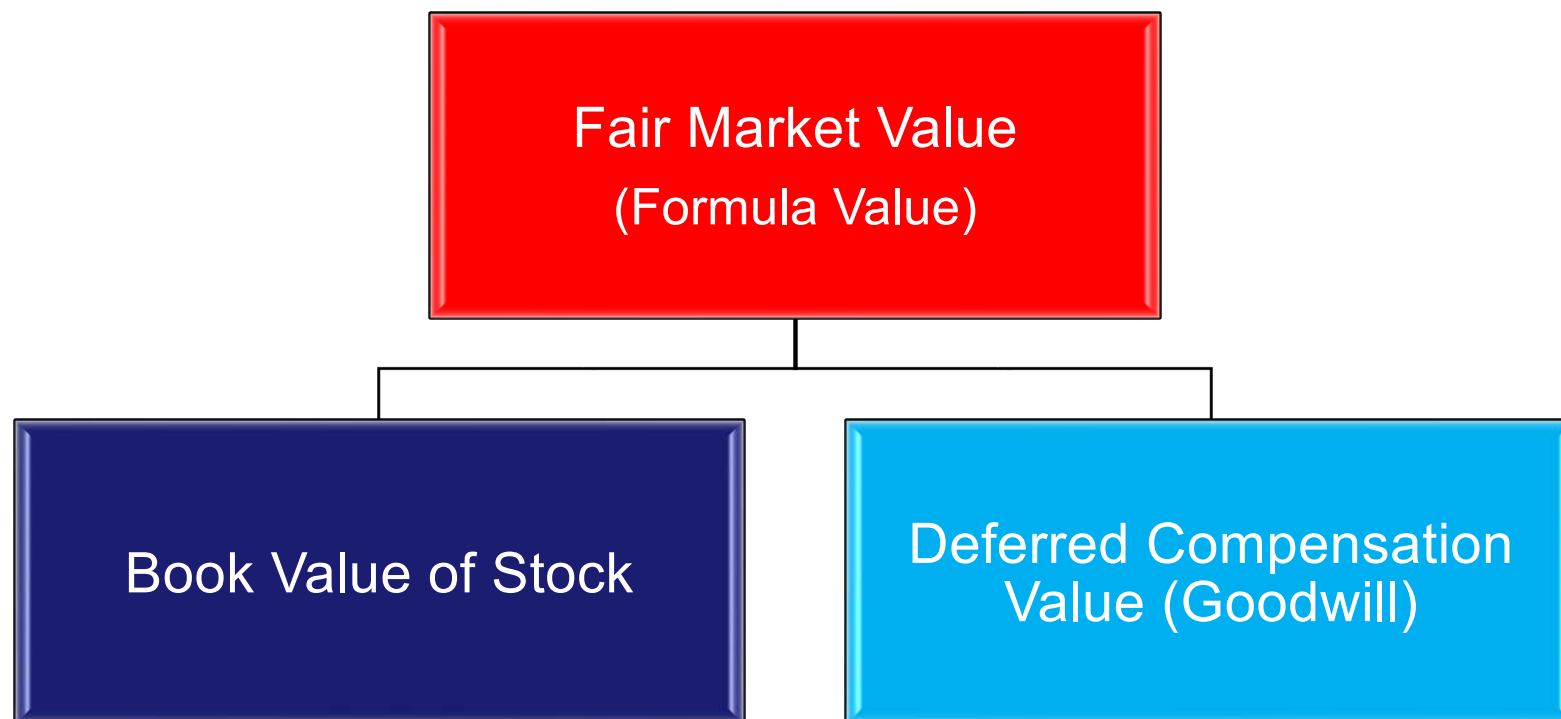
## Tax efficient transfers without an ESOP

- Low cost to buy in
- The long-term investment focus
- Goodwill is earned over long-term
- Lowers cash flow required for repurchasing shares
- Mitigates value dilution risks
- Creates tax efficiencies for transferring ownership
  - Similar tax benefits to partial ESOP
  - No DOL oversight, may use formula for valuing
  - May select key employees to participate



# Ownership Transition

## Tax efficient transfers without an ESOP



# Ownership Transition

## The Deferred Compensation Plan

- Long-term vesting
  - Typical ten to fifteen years
  - Current shareholders will be immediately vested
- 409 (a) Limitations
  - Once payment begins, cannot be paid off early
  - Payments – 36 to 84 months
  - Trigger Events must be established
    - Retirement, Death, Disability, Termination, Age
- Golden handcuffs
  - The value of the DC could be the biggest component of their overall value
    - Performance of company is biggest influence
    - Forfeiture for leaving to competing firms



# Ownership Transition

## The Deferred Compensation Plan

- Grant of Units
  - At the time of stock purchase
  - Equals the same number of shares purchased
  - New vesting schedule for each share(s) purchased
- Valuation
  - Difference between FMV and Book Value (or formula value and book value)
  - The higher the profit margins the greater the DC value

# Ownership Transition

## The Stock Plan

- Value is at book value
  - Lowers cash outlay
  - Paid through compensation and bonuses
  - Potential for high dividend yields
- Redemption
  - Down payment
  - 36 to 84 months note, may be paid off early
- Purchase
  - Down payment
  - 36 to 84 months note, may be paid off early





# Ownership Transition

## The Deferred Compensation Plan

- Grant of Units
  - At the time of stock purchase
  - Equals the same number of shares purchased
  - New vesting schedule for each share(s) purchased
- Valuation
  - Difference between FMV and Book Value (or formula value and book value)
  - The higher the profit margins the greater the DC value

# Ownership Transition

## Assumption

Capital Gains Rate	29.55%
Income Tax Rate (Individual W2)	35.75%
Income Tax Rate (Corporate Distribution)	25.70%
Stock Value	\$25,000,000
Book Value	\$9,000,000
Deferred Compensation Value	\$16,000,000

# Ownership Transition

## Cost of Share Redemption - Company

	Direct Stock	100% ESOP	30% ESOP	Deferred Comp
<b>Value of Stock Sale</b> Income Taxes @	\$25,000,000 25.7%	\$25,000,000 0.0%	\$25,000,000 18.0%	\$9,000,000 25.7%
<b>Cash Profits Required to Redeem (a)</b>	<b>\$33,650,000</b>	<b>\$25,000,000</b>	<b>\$30,480,000</b>	<b>\$12,110,000</b>
<b>Cash Profits Required for Deferred Comp (b)</b>	N/A	N/A	N/A	\$16,000,000
<b>Cash flow required to Fund Transaction (a+b)</b>	<b>\$33,650,000</b>	<b>\$25,000,000</b>	<b>\$30,480,000</b>	<b>\$28,110,000</b>
<b>Cash Flow Savings</b>		<b>\$8,650,000</b>	<b>\$3,170,000</b>	<b>\$5,540,000</b>

# Ownership Transition

## After Tax Cash Flow - Shareholder

		Direct Stock	100% ESOP	30% ESOP	Deferred Comp
<b>Value of Stock Sale</b>		\$25,000,000	\$25,000,000	\$25,000,000	\$9,000,000
Capital Gains Taxes @	29.6%	(\$7,387,500)	(\$7,387,500)	(\$7,387,500)	(\$2,659,500)
<b>After-tax Value of Stock Sale (a)</b>		<b>\$17,612,500</b>	<b>\$17,612,500</b>	<b>\$17,612,500</b>	<b>\$6,340,500</b>
<b>Value of Deferred Compensation</b>		N/A	N/A	N/A	\$16,000,000
Taxes @	35.8%	N/A	N/A	N/A	(\$5,720,000)
<b>After-tax Value of SRP (b)</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$10,280,000</b>
<b>Total Cash Flow to Shareholder (a + b)</b>		<b>\$17,612,500</b>	<b>\$17,612,500</b>	<b>\$17,612,500</b>	<b>\$16,620,500</b>



# Ownership Transition

## After Tax Cash Flow - Shareholder

Stepped UP Analysis		Direct Stock	100% ESOP	30% ESOP	Deferred Comp
Value of Stock Sale		\$25,000,000	\$25,000,000	\$25,000,000	\$9,000,000
Capital Gains Taxes @	29.6%	(\$7,387,500)	(\$7,387,500)	(\$7,387,500)	(\$2,659,500)
After-tax Value of Stock Sale (a)		\$17,612,500	\$17,612,500	\$17,612,500	\$6,340,500
Value of Deferred Compensation		N/A	N/A	N/A	\$17,540,000
Taxes @	35.8%	N/A	N/A	N/A	(\$6,268,000)
After-tax Value of SRP (b)		\$0	\$0	\$0	\$11,272,000
Total Cash Flow to Shareholder (a + b)		\$17,612,500	\$17,612,500	\$17,612,500	\$17,612,500

# Ownership Transition

## Cost of Share Redemption - Company

Stepped UP Analysis	Direct Stock	100% ESOP	30% ESOP	Deferred Comp
Value of Stock Sale	\$25,000,000	\$25,000,000	\$25,000,000	\$9,000,000
Taxes @	25.7%	0.0%	18.0%	25.7%
Cash Profits Required to Redeem (a)	\$33,650,000	\$25,000,000	\$30,480,000	\$12,110,000
Cash Profits Required for Deferred Comp (b)	N/A	N/A	N/A	\$17,540,000
Cash flow required to Fund Transaction (a+b)	\$33,650,000	\$25,000,000	\$30,480,000	\$29,650,000
Cash Flow Savings		\$8,650,000	\$3,170,000	\$4,000,000

# Ownership Transition

## High Dividends without Breaking the Bank

Stock Value	\$25,000,000
Book Value	\$9,000,000
Desired Yield	7.5%
Dividend based on Stock Value	1,875,000
Dividend based on Book Value	675,000

Q&A