

The Keystone: Trends in the Architecture & Engineering Industry



Chartwell Financial Advisory

Q4 2020

The Keystone: Trends in the Architecture & Engineering Industry

Chartwell’s architecture and engineering (AE) practice serves more than 100 industry clients throughout the United States. Our team has experience with AE firms of all types and sizes and specializes in providing ownership advisory, corporate finance, transaction opinion, and business valuation services to middle-market companies.

The Keystone focuses on current trends in M&A and public market activity within the AE sector.

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Strategic Considerations of a Contributory ESOP

Chartwell's Chris Staloch and Joe Skorczewski recently visited the Engineering Influence podcast to discuss how to use an ESOP to drive company performance. They address some of the tools that companies can use when thinking about compensation and ownership transition, one of which is establishing a contributory ESOP.

Q. What is the current state of the market? What are engineering firms looking for?

Staloch:

After some initial panic when COVID first broke out, we actually saw a pretty quick return to what we would call normalcy. We managed to close a couple of engineering transactions back in April, much to our initial surprise. We're seeing companies come to us looking for not only traditional third-party sales transactions, but also new ESOP formations and a fair amount of consulting around helping companies to think through their ownership advisory issues. We see a number of companies that are currently struggling with how to infuse enough capital into their organizations as companies transition some of their previous ownership.

Q. Are there any specific issues that Chartwell sees as commonplace in the projects you're working on?

Staloch:

One of the things that has become a recurring theme for us is that privately-held companies have this constant issue of having to transition the ownership of the business, and that's true whether the company is formed as an ESOP or whether they just have broad-based ownership. So what is happening right now is--given the demographics of society--we're having a lot of people who are retiring from companies and the amount of capital that is available to come back into the organization through investments by other employees is oftentimes not significant enough to actually effect those transitions in a manner that you would hope to see on a recurring and regular basis.

Skorczewski:

I have a story to add. There's a client of ours who recently came to us. They do a fun Friday morning trivia question--this was pre-pandemic. Everybody goes to the chalkboard and answers a question, and the question was, "If you won a million dollars, what would you do with it?" The answer options were: (A) I would go buy a boat; (B) I would put it in savings; or (C) I would pay off my student loans or other debts. And 80% of the firm answered C. The owner of the firm came to me and said, "Joe, who am I going to sell my company to? My employees do not have the personal balance sheets to buy me out. So what should I do?!"



*Chris Staloch,
Managing Director*



*Joe Skorczewski,
Director*

Staloch:

That really speaks to the significant shift in the way ownership is transitioned in businesses today. We've heard stories from our clients, some of the older folks in these firms, who've talked about how they came to their ownership in the business. They went out and got a second mortgage on their house and did things of that nature to be able to buy into the organization. Today we're not seeing people having the same willingness to do that, or in many cases, really even having the capability of doing that because of the amount of student debt they're saddled with coming out of school. For a lot of people, it might take them ten years (or more) to pay off that student debt. As such, they don't have the financial resources available to them to actually invest in these firms. So that presents a quandary.

Q. What are some of the considerations that companies should take when they're thinking about compensation and ownership questions?

Staloch:

One of the things that we have seen is companies really trying to understand how they align their compensation programs with what they're trying to accomplish from an ownership perspective. Too many times, there's a disconnect between those things. Oftentimes they're thought about in sort of a vacuum. You have a firm that puts together this great compensation program but it doesn't necessarily get them to where they need to be from an ownership perspective. And by that, I mean, oftentimes you'll see companies utilize stock as part of their compensation programs either in the form of a long-term incentive program or as part of

Strategic Considerations of a Contributory ESOP (Continued)

their annual bonus structure. But if there are not enough dollars or stock being utilized in those programs to actually effect the transitions of the older folks in the organization, that's not going to really work from a sustainable ownership perspective if indeed the goal is to maintain the ownership of that company as a privately held organization inside the existing construct.

Q. What are some of the tools that firms can use to address these issues?

Staloch:

There's a variety of things out there. Oftentimes we see people think about programs such as stock appreciation rights, utilizing stock options, or phantom stock. Things of that nature are generally what we call synthetic equity. So they're equity-like instruments, but they're not actual equity in the organization. People will use them as part of their compensation programs, usually in the form of some sort of long-term incentive program. The other component that we often see companies look at is just going to stock bonuses or setting up programs where a portion of the cash bonus that the company is providing to their employees is expected to be utilized as part of the repurchase, or I should say, the purchase of stock in the organization.

There's an interesting psychological element that we hear people talk about and management teams have different philosophies on this front. Sometimes they'll utilize stock bonuses as part of the program and feel like they're "giving stock to their employees". But if they cut them a check for their bonus and the employees need to make the decision to write a check back to the company to buy stock in the organization, we find that there's a different sort of mentality behind that for the employees. There's more of a feeling of having skin in the game in that regard. So, that's something that we see frequently as well.

Skorczewski:

One unique tool that we've seen come back to life is deferred compensation. As has been well-documented, the talent war in this industry is real. And further, there's a specific gap of these 10-to-15-year folks, project managers, future leaders of firms. There's a shortage of them actually dating back to the recession of 2008. Many owners don't want to reach down too far to provide ownership to a 30-year-old, for example, but they really want to retain that individual. But that individual is in high demand and they don't want to lose them. What we've seen happen in that case is there can be some sort of deferred compensation

plan put into place where you might award that individual a series of bonuses—\$10,000, \$20,000 or whatever the number is—that vest over a period of years, say three or five years. The presumption is that at the end of the three or five years, that person would then be in a better position. And like Chris said, that award would vest, that person would get paid, and that person would turn around and purchase stock in the company. So it's a way to extend a little bit deeper down into the organization, which can be useful depending on the demographics of your specific firm.

Staloch:

Two other elements of this to add to the discussion. One of the other tools that we've seen companies utilize is their 401k. What they'll do in some instances is create a stock fund inside the 401k of their own company stock for employees to invest in or utilize stock in the company as part of their matching contribution to the employees' dollars to get more shares into circulation. Frequently we're seeing companies look at that as a creative solution. The other element that is becoming more common is a contributory ESOP. The idea behind it is to use the stock of the corporation to make contributions into a retirement plan for the employees. It works very similar to what I mentioned on the 401k front, but it's really in the form of an ESOP which can give the company certain tax benefits that you do not necessarily have with other forms of compensation.

Q. ESOPs are usually thought of within the context of transitioning ownership in a company. What is the difference between a traditional ESOP and a contributory ESOP?

Skorczewski:

An example of a traditional ESOP that most have come to learn and know in the industry space is the ESOP can be any percentage of the company, but traditionally, some pretty big milestones are 30% ESOP, 51% ESOP, and 100% ESOP. I'll walk through an example that's been very prevalent in the industry. You have a company that's a C Corp, let's call it a \$30 million company. You might have four or five shareholders getting to retirement age and they might own about 30% of the shares. In that situation, the company would set up an ESOP. Next, the company would go to a bank, get a loan for \$10 million, which is about 30% of the overall value. Then the company would loan that \$10 million to the ESOP and the ESOP would go ahead and purchase those shares directly from the departing shareholders. There is, in that situation, an internal loan

Strategic Considerations of a Contributory ESOP (Continued)

that's created between the company and the ESOP, and those shares are essentially collateralized and then released over a period of time, let's say ten or 20 years. That would be the traditional ESOP, a leveraged transaction, which is a significant event in a company's history.

Now let's compare that to a contributory ESOP. What occurs in that situation is the company goes and sets up an ESOP, but rather than entering into a transaction, the company simply issues new shares—let's say 3% of qualified payroll—and deposits those shares into the ESOP. Over ten years you might get to the same spot where the ESOP would own 3% in year one, 6% in year two, 9% in year three, etc. Over that period, all of those shares are allocated and you essentially arrive at a similar spot. You just get there in a different way.

Staloch:

And I'll just add that one of the reasons that companies tend to think about utilizing a contributory ESOP, as opposed to a traditional ESOP structure, is that in the concept that Joe just described, you are reducing the fiduciary exposure significantly for the trustee overseeing the plan. Because now the trustee is not necessarily making a decision to purchase stock in the company. They're just accepting a contribution of shares into the plan each year. And so the amount of risk that's associated with that type of a model is substantially less than what it would be under a traditional ESOP construct.

Q. Are there other benefits or reasons why owners and sellers would choose to go with a contributory ESOP versus a traditional ESOP?

Staloch:

Some companies, particularly as we sit here today, are looking for ways to incentivize employees to go above and beyond and really drive growth in the organization. A contributory ESOP is a way to provide ownership to the employees and start to build that kind of ownership culture without providing direct ownership in the business which carries its own complexities.

Skorczewski:

Additionally, in the contributory ESOP, there's a small amount of capital that's invested in the company but it's not a \$10 million transaction, it's a small contribution of shares. So it doesn't impact the balance sheet in a way that a traditional leveraged transaction would. We've seen it work

really well with very long runways. Folks that are maybe in their lower fifties, who might have 15 years to retirement, might feel it is just too early for them to sell. Maybe the next ten years are going to be really good and they may not want to exit or liquidate their holdings so soon. In a contributory ESOP model, the percent ownership changes slowly over time. So you're not timing the market, so to speak, with a particular transaction on a particular date. It's more of a thought-out interval, a process over ten years. So if you have good years in front of you, or particularly in the environment that we're in today, if the value is low, you might not want to sell today. But a contributory ESOP would put a market in place, communicate to the employees and the company where ownership is trying to take this entity over time, and provide clarity to all the stakeholders in the firm.

Q. What are some of the challenges of utilizing an ESOP in this manner?

Skorczewski:

On the flip side, if we're dipping our toe into the water, we're creating a lot of flexibility for our departing shareholders, but it takes some time to create meaningful balances into folks' retirement accounts. It will not be an overnight success and communicating to your employees that they own the company while contributing \$575 to their retirement account that they're going to have access to in 40 years isn't a big bang out of the gate. But that's okay. It takes time. And that's not the intent. Over the course of a generation, over the course of a decade, you will start to accumulate shares in your account. The value of that will grow. And over time as you communicate how it will work, it can work very well. But the small dollar amounts right out of the gate are sometimes contradictory to someone feeling like they're an employee-owner.

In addition, a lot of folks would rather have a dollar in their pocket today than a dollar in their retirement accounts. So knowing and communicating around that is important. And there are some explicit costs of trustees and valuation firms and third party administration. So, just from a dollars-and-cents perspective, you'd want to make sure that you are committed to going down this path. Otherwise, if you do this for a few years and then revert to something else, you'd have spent some fees that could have gone elsewhere.



The Engineering Influence podcast is sponsored by the American Council of Engineering Companies (ACEC) and ACEC Life/Health Trust.
<https://acecnational.podbean.com>

Industry Activity Indicators

December 2020 Construction Spending

	\$ Billion	3MMA	12MMA
Private Nonresidential	\$453.8	<8.1%	(1.5%)
Power	\$107.6	(6.5%)	9.0%
Commercial	\$78.3	0.4%	4.7%
Manufacturing	\$69.5	(13.3%)	(8.1%)
Office	\$69.3	(7.4%)	(4.6%)
Healthcare	\$37.0	0.4%	6.7%
Lodging	\$23.0	(22.8%)	(13.0%)
Communication	\$21.8	0.5%	1.1%
Education	\$16.3	(19.2%)	(18.1%)
Public Nonresidential	\$338.7	2.0%	5.0%
Highway & Street	\$97.5	4.3%	2.4%
Education	\$86.7	(1.2%)	3.3%
Transportation	\$41.7	1.8%	5.2%
Sewage & Waste	\$25.8	0.1%	3.6%
Water Supply	\$17.5	5.6%	17.3%
Power	\$6.7	(10.9%)	7.5%

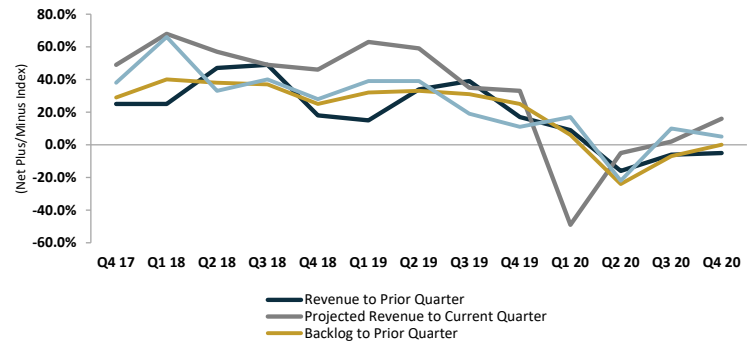
Seasonally Adjusted Annual Rate
Source: U.S. Census Bureau

AIA Consensus Construction Forecast

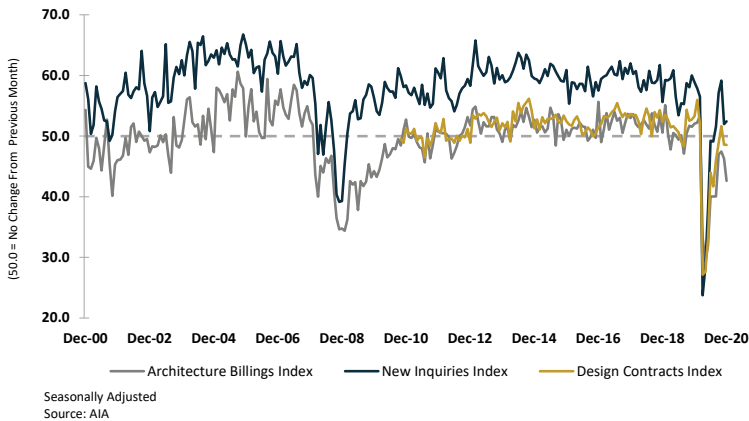
	2021	2022
Nonresidential Total	(5.7%)	3.1%
Commercial Total	(7.1%)	3.1%
Office	(9.3%)	0.1%
Retail & Other Commercial	(3.5%)	5.2%
Hotel	(20.2%)	8.8%
Industrial Total	(4.5%)	1.5%
Institutional Total	(4.0%)	3.2%
Health	1.2%	3.2%
Education	(3.9%)	2.7%
Religious	(6.7%)	(2.9%)
Public Safety	1.0%	(0.4%)
Amusement & Recreation	(12.6%)	11.1%

Source: American Institute of Architects (AIA)

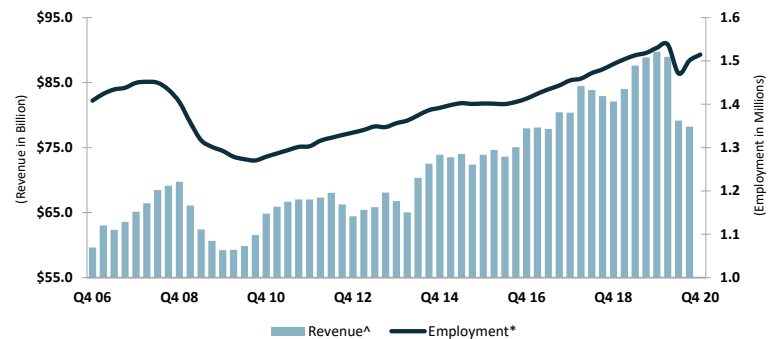
Revenue, Projected Revenue, Backlogs, and Proposal Opportunities



Work-on-the-Boards Survey Data



Engineering, Architectural, and Related Services

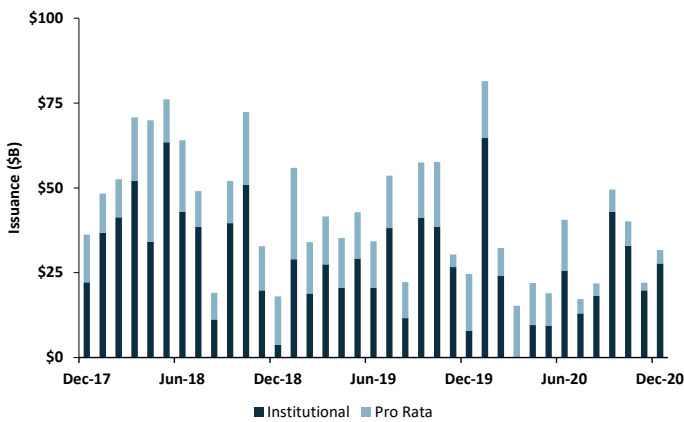


Capital Markets Update

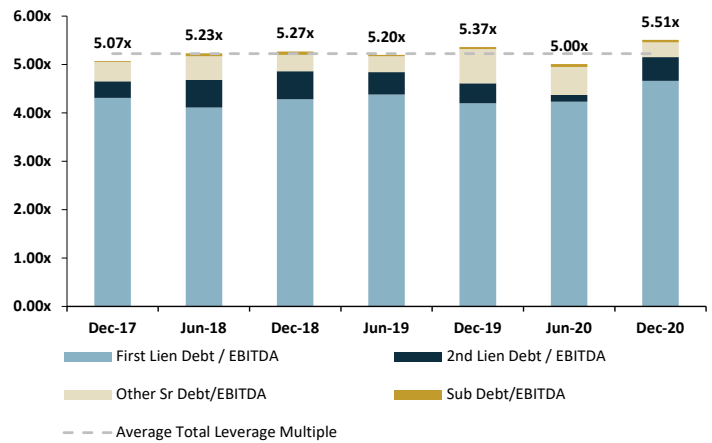
Capital markets activity nearly fully recovered following spring/summer 2020 trough

- Lending activity finished the year on a strong note with a significant number of deals closing in the final weeks of Q4 2020
- Leverage levels, interest rates, and other key metrics are now at pre-pandemic levels for stable issuers
- “Storied” credits and companies impacted by COVID-19 will continue to receive increased due diligence from capital providers in transactions
- Outlook remains robust for the capital markets in 2021 as Federal stimulus backstopping the general economy and key issuers is combined with a significant amount of capital awaiting deployment
- Further rollout of COVID-19 vaccines will propel the capital markets appetite for new opportunities

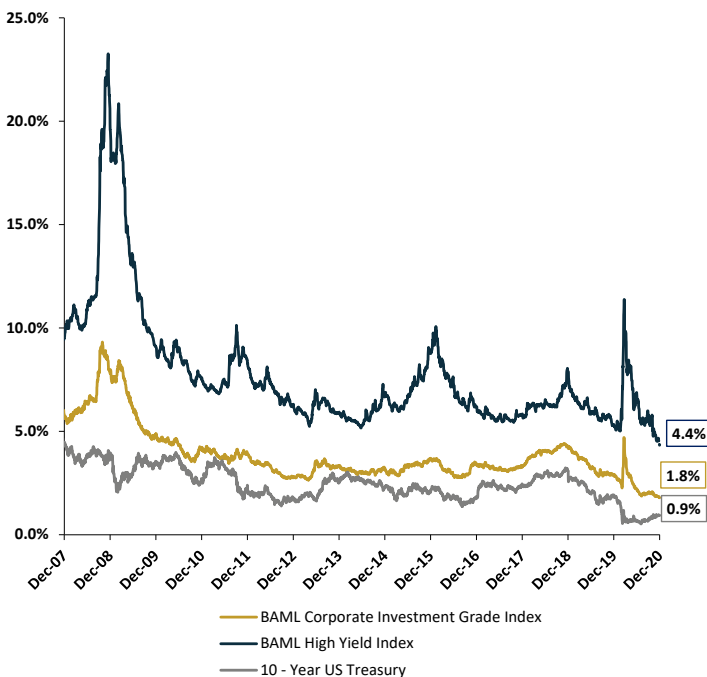
U.S. Leveraged Loan Issuance



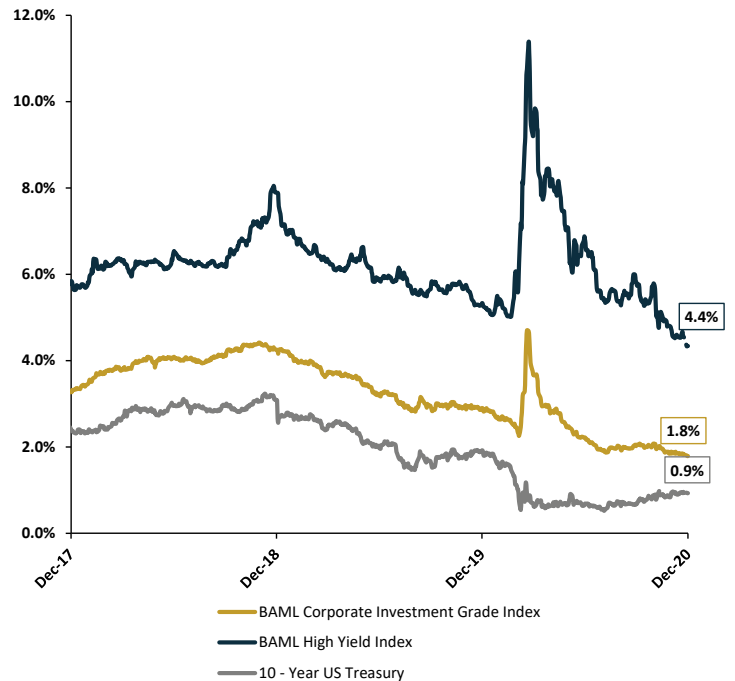
Historical Debt Multiples of Middle Market Loans



Historical & Current Interest Rates (2006–2016)



Historical & Current Interest Rates (2017–2020)



Chartwell Advises Salas O'Brien on Recapitalization Transaction



"Salas O'Brien selected Chartwell as our financial advisor based on their reputation in capital markets and vast industry knowledge in engineering and consulting services. They were attentive to our needs and provided leadership with important, unbiased, and in-depth analyses at every step of this highly complex, multi-faceted transaction. We are simply delighted by the outcome and we highly appreciate our relationship with Chartwell."

– Darin Anderson, Chief Executive Officer
Salas O'Brien

Company Background

- Salas O'Brien ("Salas" or the "Company") is a leading engineering, facility planning, and commissioning firm addressing highly technical building and facility challenges
- Salas is 100% owned by an employee stock ownership plan as a result of a sale-to-ESOP transaction in August 2016
- The Company is based in Orange County, California and has over 30 office locations nationwide

Transaction Overview

- Following Chartwell's recommendation, the Company pursued a recapitalization transaction in order to deleverage the balance sheet and provide liquidity for the 2016 ESOP transaction sellers and subsequent merger partners
- As a result of the recent transaction, the Company's capital structure was enhanced through the subsequent issuance of debt and equity, resulting in greater financial flexibility and excess capital to support additional acquisitions

Transaction Details

- Since the ESOP transaction, the Company has deployed its cash flow from operations and increased credit capacity from operational growth to finance a series of strategic mergers, delaying the balance sheet deleveraging anticipated following the ESOP transaction
- Chartwell presented multiple scenarios to the Board, including a sale of the Company and recapitalization; while Chartwell was able to secure binding indications from interested parties, a dual-track financing process was launched to maximize value for the shareholders
- As a result of the market clearing process, Chartwell and the Board reassessed the situation, ultimately resulting in the Board concluding that the best process forward was the pursuit of a recapitalization, which included a minority equity investment
- In addition, a corporate reorganization including conversion of the ESOP into a Profit Sharing Plan and the revocation of the Company's S corporation tax status was pursued for greater flexibility in future merger transaction equity allocations
- Chartwell managed various diligence and negotiation work streams with both investors and their respective advisors as well as the ESOP Trustee and its advisors, culminating with the closing of a highly complex recapitalization and corporate reorganization transaction

Chartwell Advises Wenck Enterprises on Sale to Stantec



"Chartwell has been our trusted advisor since 1999, assisting Wenck during multiple stages of growth and with issues related to employee ownership. As we have valued Chartwell's partnership for so many years, it seemed natural to turn to them to lead us through this transaction. Having Chartwell manage the process and communication with all parties was immensely helpful to keep myself and the management team focused on the business. I was very impressed with Chartwell's expertise and guidance and the superior outcome for our ESOP participants and Wenck. We are all part of the Wenck family and our new partnership with Stantec will present excellent opportunities for all current and future employees."

– Rod Ambrosie, CEO, Wenck Enterprises

Company Backgrounds

- Wenck Enterprises, Inc. ("Wenck" or the "Company") is a provider environmental, engineering, construction, and response solutions to private and public clients throughout the U.S. and Canada
- Wenck was 100% owned by an employee stock ownership plan and headquartered in Maple Plain, Minnesota
- Stantec is a large, global engineering firm headquartered in Edmonton, Canada
- Stantec is a publicly-traded company on the TSX and NYSE with a market cap of approximately \$4.0 billion

Transaction Overview

- Wenck and Stantec had a working relationship and were actively collaborating on current and future projects
- Wenck's Board of Directors and executive leadership believed combining with Stantec would provide both the economic and strategic resources necessary to further expand the Company's service offerings and accelerate its geographic and market growth plans
- In addition, the combination would provide growth opportunities for Wenck's employees and more comprehensive capabilities to serve clients

Transaction Details

- Wenck engaged Chartwell to guide the Board of Directors and executive management through a sale process with a large sophisticated, international acquirer
- Chartwell positioned the Company to highlight strategic value to be achieved through a combination of the companies and negotiated vigorously to attain favorable deal terms and conditions
- Negotiations and the transaction took place amid a global pandemic, civil unrest, and a chaotic political environment – yet, a very favorable outcome was achieved for the ESOP and its participants
- The transaction included the divestiture of non-core businesses and assets not desired by Stantec, which created complexity coordinating several transactions in concert with one another
- Given the transaction included a publicly-traded company, additional consideration was needed to maintain confidentiality and coordinate public announcements
- Chartwell coordinated efforts between the buyer, Wenck's legal team and other advisors, and the ESOP trustee and its advisors to ensure a smooth process and successful transaction close

Merger & Acquisition Activity - Q3 & Q4 2020

Western Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/6/2020	Undisclosed Buyer	Nadel Architects Inc.	Los Angeles, CA	Architectural services
7/7/2020	Topographic, Inc.	Brown Civil Engineering Group, Inc.	Lafayette, CO	Engineering and land surveying services
7/10/2020	Cumming Construction Management, Inc.	PlanB Consultancy International, LLC	Portland, OR	Construction project consulting services
8/3/2020	Atlas Technical Consultants, Inc.	Alta Vista Solutions, Inc.	Oakland, CA	Engineering, inspection, quality management, and infrastructure services
8/4/2020	Court Square Capital Management, L.P.	RailPros, Inc.	Irvine, CA	Rail engineering, design, and management services
8/6/2020	Alliant Networks, Inc.	4G Underground Construction, LLC	Menifee, CA	Civil engineering services
8/11/2020	AO	WHL Architects*Planners, Inc.	Sunnyvale, CA	Architectural and planning services
8/28/2020	Haley & Aldrich, Inc.	Hart Crowser, Inc.	Seattle, WA	Earth and environmental consulting services
9/18/2020	Charles Taylor plc	SBSA, LLC	Golden, CO	Architectural engineering, civil engineering, structural engineering, construction administration, and related services
10/13/2020	Wipro Limited	Eximius Design, LLC	San Jose, CA	Engineering services
11/30/2020	Alliance Holdings, LLC	Almega Environmental & Technical Services, Inc.	Cypress, CA	Emission testing and analysis services
12/1/2020	RTM Engineering Consultants, LLC	RCE Consultants, Inc.	Laguna Woods, CA	Civil engineering services
12/15/2020	Hennebery Eddy Architects, Inc.	Comma-Q Architecture, Inc.	Bozeman, MT	Architectural consulting and related services

Southwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/14/2020	OPRA Turbines B.V.	Airem Energy, LLC	Brookshire, TX	Engineering services
8/5/2020	Connor, Clark & Lunn Infrastructure Ltd.; Alpenglow Rail LLC	USA Rail Terminals, LLC	Center, TX	Rail design, engineering, operation, construction, and management services
8/10/2020	Forensic Engineering Services, LLC	Scientific Analysis, Inc.	Dallas, TX	Accident reconstruction forensic engineering services

Merger & Acquisition Activity - Q3 & Q4 2020

Southwestern Region (continued)				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
8/31/2020	George Butler Associates, Inc	Jay Engineering Company, Inc.	Leander, TX	Civil engineering services
9/1/2020	Baxter & Woodman, Inc.	AEI Engineering, LLC	Houston, TX	Construction and engineering services
9/22/2020	Terracon Consultants, Inc.	Environmental Planning Group, LLC.	Phoenix, AZ	Environmental, energy, and utility infrastructure consulting services
11/20/2020	Petrosmith LLC	Assets of Wellflex Energy Solutions, LLC	Fort Worth, TX	Construction management, procurement, and engineering services

Midwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/13/2020	Quanta Services, Inc.	HBK Engineering, LLC	Chicago, IL	Civil, environmental, structural, and engineering design services
8/3/2020	NAC, Inc.	Trinity	Columbus, OH	Healthcare architecture, operational analysis, planning, and interior design services
8/6/2020	Davey Resource Group, Inc.	Certain Assets of TGC Engineering, LLC	Sharon Center, OH	Civil engineering, surveying, design, and construction services
9/16/2020	V3 Companies, Ltd.	Bird+Bull, Inc.	Columbus, OH	Civil engineering and land surveying services
9/28/2020	Hitachi ABB Power Grids Ltd	Pioneer Solutions, LLC	Cleveland, OH	Engineering and project management services
9/29/2020	Parkhill, Smith & Cooper, Inc.	Cardinal Engineering, LLC	Norman, OK	Civil and environmental engineering services
10/13/2020	The Kleinfelder Group, Inc.	Poggemeyer Design Group Inc.	Bowling Green, OH	Engineering, architectural, planning, and consulting services
10/29/2020	Barr Engineering Company	King & MacGregor Environmental, Inc.	Grand Rapids, MI	Wetland consulting and environmental services
10/31/2020	Braun Intertec Corporation	The Anderson Kelsey Group, LLC	St. Louis Park, MN	Air quality, industrial environmental compliance, and health and safety consulting services
12/3/2020	Stantec Inc.	Wenck Enterprises, Inc.	Maple Plain, MN	Engineering construction and consulting services
12/15/2020	J.F. Lehman and Company, LLC	ENTACT, LLC	Westmont, IL	Environmental remediation and geotechnical services

Merger & Acquisition Activity - Q3 & Q4 2020

Northeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/1/2020	Cedarville Engineering Group, LLC	Berner Construction, Inc.	Gap, PA	Construction and environmental-related services
7/29/2020	Claitman Engineering Associates Inc.	Lovorn Engineering Associates, LLC	Pittsburgh, PA	Mechanical, electrical, and plumbing engineering services
8/1/2020	Civil & Environmental Consultants, Inc.	SITEC, Inc.	Dartmouth, MA	Civil engineering and land surveying services
8/4/2020	Spagnolo Gisness & Associates Inc	J Talka Consulting LLC	Portland, ME	Architectural and design consulting services
8/18/2020	InSite Surveying, LLC	Faraldi Group, Inc.	Secaucus, NJ	Residential and commercial land surveying services
8/26/2020	Wind River Environmental, LLC	Franc Environmental, Inc.	Ivyland, PA	Wastewater management and septic system services
9/2/2020	DeSimone Consulting Engineers, Inc.	Assets of RRC Engineering, LLC	Plainville, MA	Construction and engineering services
9/8/2020	Valicor Environmental Services, LLC	Water Depot, Inc.	Westminster, MD	Wastewater treatment services
9/10/2020	Montrose Environmental Group, Inc.	Certain Testing assets and Operations of Leed Environmental Inc. -	Reading, PA	Environmental project management and coordination services
10/14/2020	Global Infrastructure Solutions Inc.	The LiRo Group	Syosset, NY	Project construction management, engineering, environmental, architectural, and program management services
10/23/2020	ALL4 Inc.	Environmental Strategy Consultants, Inc.	Philadelphia, PA	Environmental consulting services
11/10/2020	Alliance Holdings, LLC	Blue Mountain Environmental Management Corp	Valencia, PA	Engineering, technical, and management consulting services
12/2/2020	TRC Companies, Inc.	Shoener Environmental, Inc.	Dickson City, PA	Environmental consulting services
12/15/2020	LaBella Associates, D.P.C.	Chazen Engineering, Land Surveying & Landscape Architecture Co., P.C.	Poughkeepsie, NY	Engineering, land surveying, planning, environmental and safety services, landscape architecture, and construction services
12/21/2020	Pace Analytical Environmental Sciences	Con-Test, Inc.	East Longmeadow, MA	Environmental consulting and testing services

Merger & Acquisition Activity - Q3 & Q4 2020

Southeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
7/1/2020	KCI Technologies Inc.	Hulsey McCormick & Wallace, Inc.	Piedmont, SC	Civil and environmental engineering services
8/1/2020	Commonwealth Architects, Inc.	Boynton Rothschild Rowland Architects P.C.	Richmond, VA	Architectural services
8/13/2020	SEPI Engineering & Construction, Inc.	The Mellgren Planning Group/ Foley/Kolarik, Inc.	Fort Lauderdale, FL and Palmetto, FL	Engineering, planning, and urban design services
9/1/2020	Ardurra Group, Inc.	Constantine Engineering, Inc.	Fort Walton Beach, FL	Construction and engineering services
9/15/2020	ALL4 Inc.	Smith Management Group, Inc.	Lexington, KY	Environmental consulting services
11/2/2020	Ardurra Group, Inc.	Pigeon-Roberts & Associates, LLC	Ocala, FL	Land planning, civil engineering, environmental engineering, surveying, and land development project management services
12/1/2020	Salas O'Brien Engineers, Inc.	Dunlap & Partners Engineers, Inc.	Richmond, VA	Mechanical, electrical, plumbing, and fire protection engineering design services
12/1/2020	Wetland Studies and Solutions, Inc.	Assets of EEE Consulting, Inc.	Mechanicsville, VA	Environmental and engineering services
12/7/2020	Terracon Consultants, Inc.	TAM Consultants, Inc.	Williamsburg, VA	Engineering and design services
12/17/2020	Moseley Architects P.C.	Cummings & McCrady, Inc.	Charleston, SC	Architectural, planning, engineering, and interior architecture services
12/21/2020	Lindsay Goldberg LLC	Pike Corporation	Mount Airy, NC	Construction and engineering services
12/21/2020	Resource Environmental Solutions, LLC	Redwing Ecological Services, Inc.	Louisville, KY	Ecological consulting, design, and engineering services
12/31/2020	SSOE, Inc.	Stevens & Wilkinson Stang & Newdow, Inc.	Atlanta, GA	Architectural, engineering, and interiors services

Select International				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Description
11/12/2020	Surbana Jurong Private Limited	Atelier Ten Ltd.	London, United Kingdom	Environmental design consulting, building services design, and engineering services
12/2/2020	Stantec Inc.	AGEL Adviseurs B.V.	Oosterhout, Netherlands	Engineering, environmental, spatial development, infrastructure, and GIS services
12/3/2020	WSP Global Inc.	Golder Associates Corporation	Mississauga, Ontario, Canada	Earth, environmental, and energy engineering and consulting services

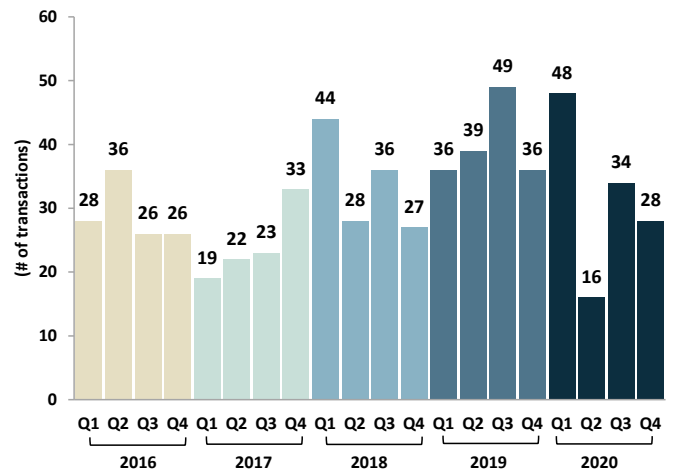
Source: Capital IQ, Data as of 12/31/2020

Chartwell Commentary

Merger & Acquisition Observations

Over the last five years, the number of AE deals totaled more than 600, averaging about 31 per quarter. 2019 was more active than normal and we certainly saw that carry into Q1 of 2020. Without the impact of the pandemic, which most started feeling in March of 2020, Q1 might have been an all-time high. As the U.S. economy significantly and suddenly contracted as a result of the COVID-19 pandemic, the broader M&A market slowed considerably. In many cases, challenges stemming from business disruption or the general fear of unknown outcomes halted some planned M&A activity in spring and early summer 2020. However, based on the data provided, the M&A market appears to be recovering as both buyers and sellers have been able to assess the financial and economic impacts of the pandemic for their stakeholders. Accordingly, Q3 and Q4 transaction volume was in line with pre-pandemic levels (~31 deals per quarter).

M&A Activity: AE Industry



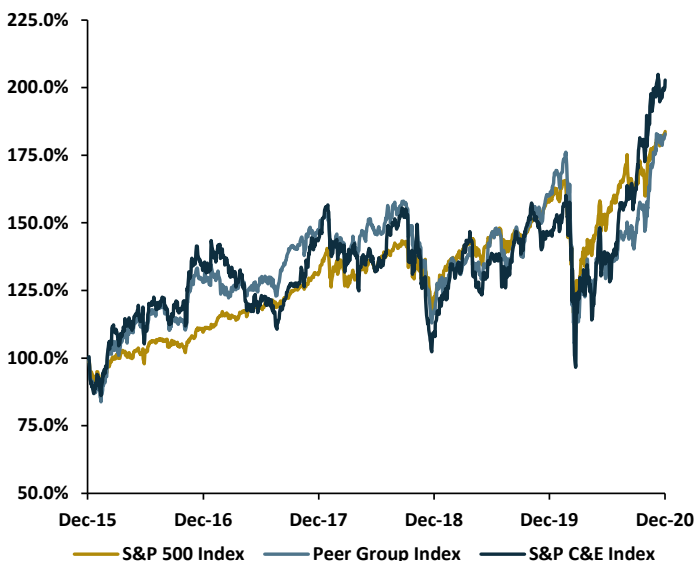
Guideline Public Company Observations

During the past five years, the S&P 500 underperformed the S&P 1500 Construction & Engineering Index (“S&P C&E Index”) and was remarkably similar when compared to the Peer Group index. On December 31, 2020, the Peer Group index was up 82.8%, the S&P C&E Index was up 102.80%, and the S&P 500 index was up 83.8%.

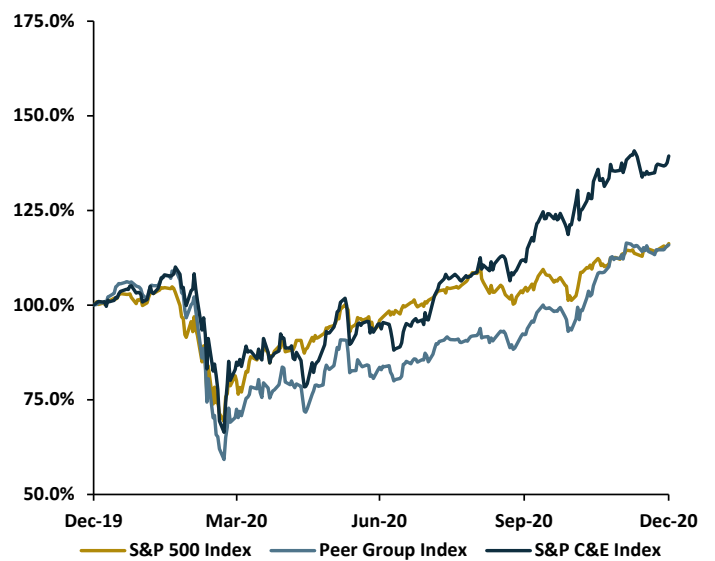
During the first four months of 2020, all three indices experienced declines amid the COVID-19 pandemic. However, all three indices experienced gains from May to November of 2020 as concerns regarding the pandemic subsided to a degree. During the LTM ended December 31, 2020, the Peer Group and S&P C&E Index increased 15.9% and 39.3%, respectively. In comparison, the S&P 500 Index increased 15.4%. Ten of the 16 companies in the Peer Group index experienced increases in equity value during the LTM.

EBITDA multiples measured as the median of the Peer Group were up slightly (3.0%) at year-end compared to one year earlier (13.7x vs. 13.3x). This reflects six companies experiencing an expansion in multiples and six companies experiencing a contraction in multiples while the rest were neutral or not a meaningful comparison. The FY 20 median multiple compares somewhat closely to the three-year and five-year median (13.0x and 14.2x, respectively).

Five-Year Index Performance



One-Year Index Performance



AE Index Market Performance – Q4 2020

		Enterprise Value			Equity Value		
Company	Ticker	12/31/ 2020	Q4 Δ	LTM Δ	12/31/ 2020	Q4 Δ	LTM Δ
Jacobs Engineering Group, Inc.	NYSE:J	14,701	13.3%	24.5%	14,163	17.2%	18.3%
WSP Global, Inc.	TSX:WSP	11,743	37.9%	30.1%	10,744	44.5%	48.4%
AECOM	NYSE:ACM	7,980	5.1%	(4.9%)	7,505	11.8%	10.8%
Tetra Tech, Inc.	NasdaqGS:TTEK	6,376	20.3%	37.8%	6,226	21.0%	32.4%
Worley Limited	ASX:WOR	6,087	23.8%	(10.7%)	4,637	29.9%	(17.3%)
Stantec, Inc.	NYSE:STN	4,464	3.6%	3.6%	3,632	7.1%	15.4%
SNC-Lavalin Group, Inc.	TSX:SNC	3,983	6.1%	(22.6%)	2,994	6.4%	(26.1%)
John Wood Group PLC	LSE:WG.	4,777	30.3%	(21.3%)	2,858	54.7%	(19.6%)
Parsons Corporation	NYSE:PSN	3,685	4.1%	(12.8%)	3,667	8.6%	(10.5%)
Arcadis NV	ENXTAM:ARCAD	3,711	39.1%	32.3%	2,974	51.8%	43.8%
Montrose Environmental Group, Inc.	NYSE:MEG	1,063	1.8%	NA	773	30.0%	NA
NV5 Global, Inc.	NasdaqCM:NVEE	1,308	33.4%	95.4%	1,044	49.7%	61.4%
Willdan Group, Inc.	NasdaqGM:WLDN	609	48.2%	34.0%	503	63.6%	40.0%
RPS Group plc	LSE:RPS	405	36.4%	(41.4%)	256	64.4%	(48.3%)
IBI Group, Inc.	TSX:IBG	319	14.6%	9.1%	201	31.0%	43.8%
Cardno Limited	ASX:CDD	195	10.6%	(8.9%)	105	13.3%	(29.1%)
Average		4,463	20.6%	9.6%	3,893	31.6%	10.9%
Median		3,847	17.5%	3.6%	2,984	29.9%	15.4%

\$ in millions

Source: Capital IQ, Data as of 12/31/2020

LTM = Last Twelve Months

AE Index Financial Performance - Q4 2020

Company	Revenue			EBITDA			EBITDA Margin		
	LTM \$	LTM Δ	NTM Δ	LTM \$	LTM Δ	NTM Δ	5-Year Avg.	LTM	NTM
AECOM	13,240	(3.0%)	(1.4%)	753	4.7%	7.6%	5.0%	5.7%	6.2%
Jacobs Engineering Group, Inc.	13,567	6.5%	3.2%	1,047	12.5%	7.4%	6.9%	7.7%	8.0%
John Wood Group PLC	9,187	(7.1%)	(15.5%)	481	(10.2%)	36.3%	6.0%	5.2%	8.4%
Worley Limited	9,011	86.6%	(8.2%)	571	90.3%	28.8%	5.2%	6.3%	8.9%
SNC-Lavalin Group, Inc.	6,473	(11.1%)	(0.9%)	265	*463.9%	108.0%	5.9%	4.1%	8.6%
WSP Global, Inc.	6,536	(1.2%)	NA	553	4.4%	NA	7.8%	8.5%	NA
Parsons Corporation	3,992	3.8%	4.3%	319	22.3%	20.9%	NA	8.0%	9.3%
Arcadis NV	3,904	1.6%	7.1%	217	(23.2%)	72.1%	6.4%	5.6%	8.9%
Stantec, Inc.	2,795	1.5%	6.2%	332	6.4%	35.7%	11.2%	11.9%	15.2%
Tetra Tech, Inc.	2,349	(1.7%)	3.3%	268	11.7%	7.1%	10.7%	11.4%	11.8%
RPS Group plc	717	(8.2%)	(8.2%)	48	(35.9%)	18.6%	9.6%	6.7%	8.7%
Cardno Limited	683	4.0%	9.0%	49	100.7%	(32.5%)	3.3%	7.1%	4.4%
NV5 Global, Inc.	631	28.3%	7.3%	83	35.5%	28.6%	12.3%	13.1%	15.8%
Willdan Group, Inc.	423	5.8%	8.1%	31	(1.6%)	21.4%	8.0%	7.3%	8.2%
IBI Group, Inc.	363	4.0%	(14.4%)	35	(2.7%)	10.7%	10.0%	9.5%	12.3%
Montrose Environmental Group, Inc.	287	NA	25.2%	22	NA	185.4%	NA	7.6%	17.4%
Average	4,635	7.3%	1.7%	317	15.3%	37.1%	7.7%	7.9%	10.1%
Median	3,349	1.6%	3.3%	267	5.5%	21.4%	7.4%	7.5%	8.9%

\$ in millions

Source: Capital IQ, Data as of 12/31/2020

LTM = Last Twelve Months | NTM = Next Twelve Months

AE Index Implied Market Multiples - Q4 2020

Company	Enterprise Value / EBITDA					
	5-Year Avg.	Q4 2019	Q4 2020	Q4 2021E	Q4 Δ	LTM Δ
Parsons Corporation	NA	16.3x	11.6x	9.6x	-0.09x	-4.71x
Montrose Environmental Group, Inc.	NA	NA	48.4x	17.0x	-3.92x	NA
SNC-Lavalin Group, Inc.	33.0x	NMF	15.0x	7.2x	+4.61x	NA
NV5 Global, Inc.	14.5x	11.0x	15.8x	12.3x	+2.09x	+4.77x
Tetra Tech, Inc.	16.5x	20.3x	23.8x	22.2x	+1.64x	+3.50x
Worley Limited	17.7x	22.7x	10.7x	8.3x	+2.05x	-12.06x
WSP Global, Inc.	15.0x	17.0x	21.2x	NA	+5.35x	+4.20x
Willdan Group, Inc.	14.5x	14.8x	19.7x	16.2x	+6.97x	+4.91x
Jacobs Engineering Group, Inc.	13.9x	13.7x	14.0x	13.1x	+2.48x	+0.30x
Stantec, Inc.	13.3x	13.8x	13.4x	9.9x	+0.31x	-0.36x
John Wood Group PLC	14.4x	11.3x	9.9x	7.3x	+2.31x	-1.40x
AECOM	11.3x	12.9x	10.6x	9.8x	+2.81x	-2.34x
Cardno Limited	10.6x	8.8x	4.0x	5.9x	+0.38x	-4.81x
Arcadis NV	10.6x	9.9x	17.1x	9.9x	+4.81x	+7.17x
RPS Group plc	8.6x	9.2x	8.4x	7.1x	+2.24x	-0.78x
IBI Group, Inc.	8.0x	8.2x	9.2x	8.3x	+1.19x	+1.00x
Average	14.4x	13.6x	15.8x	10.9x	+2.20x	-0.04x
Median	14.2x	13.3x	13.7x	9.8x	+2.17x	-0.03x

Source Data Provided by Capital IQ as of 12/31/2020
LTM = Last Twelve Months

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