

The Keystone: Trends in the Architecture & Engineering Industry



Chartwell Financial Advisory

Q2 2023

The Keystone: Trends in the Architecture & Engineering Industry

Chartwell’s architecture and engineering (AE) practice serves more than 150 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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Welcome to the Q2 2023 edition of The Keystone!

Our intention with this newsletter is to provide you with information on financial matters applicable to the AE sector including industry indicators, capital markets insights, M&A activity, and public market trends. The Keystone is published bi-annually for Q2 and Q4.

We hope you enjoy this edition of The Keystone. Please let us know if there is any additional information you would like to see in future issues.

– Your Friends at Chartwell

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Net Working Capital Efficiencies & Impact on Value

Equity Value - What Drives Growth?

Companies often attempt to increase value through improved cash flow from additional revenue generation, margin improvements, or reductions to capital spending. However, many firms overlook the potentially significant impact working capital improvements can have on equity value. Projected cash flows can benefit significantly from decreasing the average number of days the receivables are outstanding by making changes to the company's collection patterns and procedures.

For example, let's create a hypothetical company in the architecture & engineering industry space that generates gross revenue of \$77.0 million, net revenue of \$63.0 million, and EBITDA margin of 11.0% (\$6.9 million). Let's say the company's "as-is" enterprise value is \$46.0 million.

We then pose the following question: Which of the following improvements would increase the company's equity value the most?

1. An increase in the company's projected sustainable net revenue by 21.0%, from \$63.0 million to \$76.0 million, with no change to the EBITDA profit margin into perpetuity¹
2. An increase in the company's projected sustainable EBITDA margin by 215 basis points into perpetuity (i.e., enhance profit margin by 19.5%, for example going from an 11.0% profit margin to a 13.15% profit margin)²
3. An improvement in the management of the company's net working capital balances by decreasing the days in receivable from 100 days to 70 days into perpetuity³

Trick question! All of the above have a \$9.5 million impact on value.



Normalized Net Working Capital Balances

A company can have either positive or negative normalized net working capital balances.

A company with large accounts receivable or WIP/inventory balances would typically have a positive normalized net working capital balance (think manufacturing companies, professional services companies, retailers). This type of company has to invest cash into their net working capital balances if their revenues are growing.

Alternatively, a company with high deferred revenue balances would typically have a negative normalized net working capital balance (think SAAS/subscription companies, airlines, hotels). This type of company generates cash from their net working capital balances if their revenues are growing.

All other things being equal, it is more "expensive" for a company with a positive normalized net working capital balance to grow than it is for a company with a negative normalized net working capital balance.

However, a company with a positive normalized net working capital balance can decrease this "cost of growth" by decreasing the days their receivables are outstanding. By doing this, the company will receive cash faster, which would increase the company's enterprise and equity value.

In the hypothetical case above, if the company were to decrease the average days their receivables are outstanding from 100 to 70, they would decrease the cost of their future growth and the company's equity value would increase by over 22.0%!

Providing project managers with tools and efficient processes can help transition WIP to AR. Further, using AI or sending invoice reminders regularly to your clients to encourage speedier collections across your organization is a simple yet effective way to increase your company's value. ■

¹ \$9.5 million impact on value based on mid-point value of DCF

² \$9.5 million impact on value based on mid-point value of DCF

³ \$9.5 million impact on value based on mid-point value of DCF combined with a lower working capital target

Industry Activity Indicators

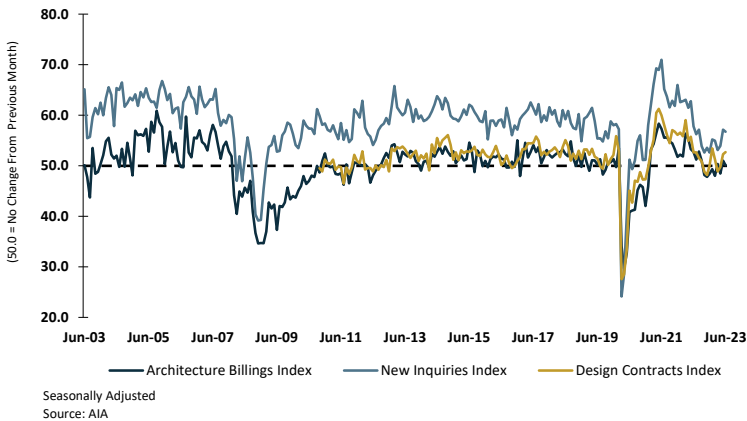
June 2023 Construction Spending			
	\$ Billion	3MMA	12MMA
Private Nonresidential	\$660.6	21.5%	17.5%
Manufacturing	\$195.5	80.0%	61.5%
Commercial	\$121.3	6.0%	16.1%
Power	\$102.8	4.0%	<4.0%>
Office	\$83.5	6.3%	5.3%
Healthcare	\$47.7	11.6%	10.6%
Communication	\$24.0	0.1%	4.5%
Lodging	\$22.8	22.9%	26.1%
Education	\$22.2	16.8%	13.4%
Public Nonresidential	\$411.3	13.6%	10.4%
Highway & Street	\$128.6	17.2%	14.6%
Education	\$88.9	6.4%	3.1%
Transportation	\$44.1	7.1%	2.3%
Sewage & Waste	\$38.7	22.3%	18.9%
Water Supply	\$25.5	12.1%	16.9%
Power	\$12.7	35.7%	21.5%

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

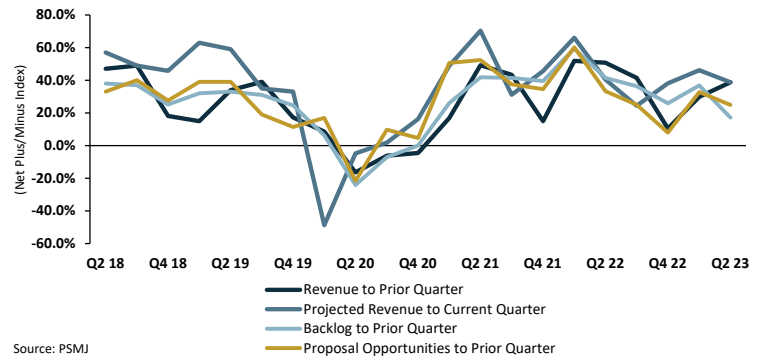
AIA Consensus Construction Forecast		
	2023	2024
Nonresidential Total	19.7%	2.0%
Commercial Total	11.2%	(1.7%)
Office	8.0%	(1.4%)
Retail & Other Commercial	10.8%	(2.8%)
Hotel	24.0%	7.0%
Industrial Total	55.1%	5.4%
Institutional Total	10.0%	3.6%
Health	10.4%	3.0%
Education	10.5%	4.3%
Religious	8.4%	1.0%
Public Safety	3.9%	5.3%
Amusement & Recreation	10.2%	1.9%

As of June 2023
Source: American Institute of Architects (AIA)

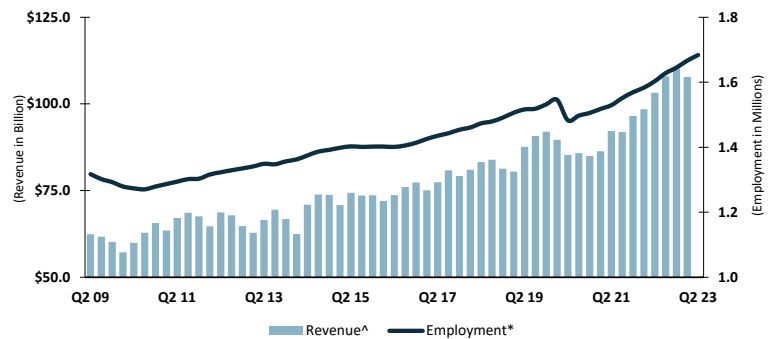
Work-on-the-Boards Survey Data



Revenue, Projected Revenue, Backlogs, and Proposal Opportunities



Engineering, Architectural, and Related Services



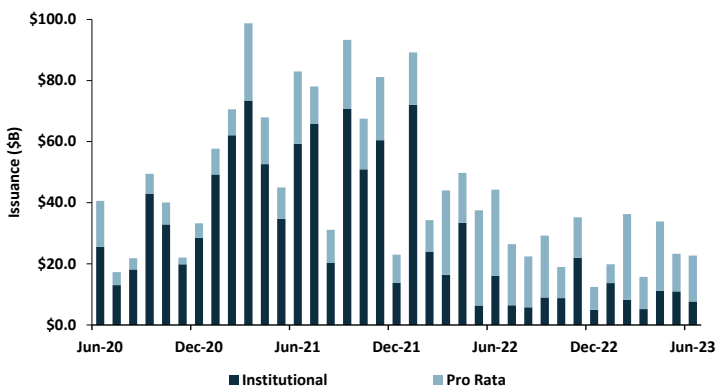
[^]Not Seasonally Adjusted, Data begins in the 3rd Quarter of 2006
^{*}Seasonally Adjusted, End of Quarter
Source: U.S. Census Bureau and U.S. Bureau of Labor Statistics

Capital Markets Update

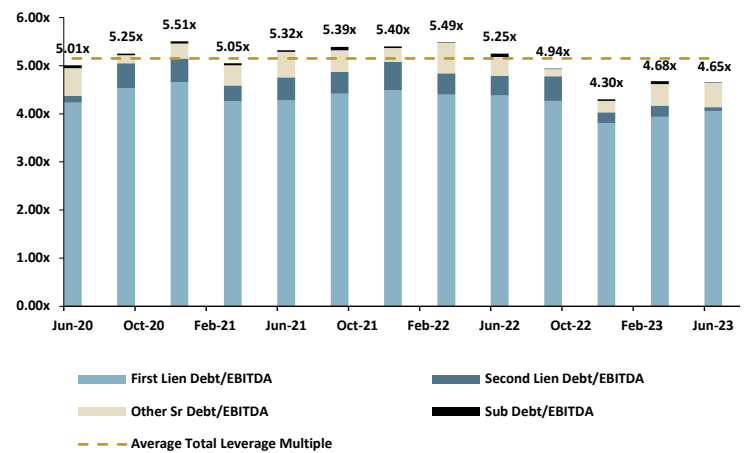
Market participants continue to transact while capital providers assess the environment.

- Lenders continue to assess economic indicators and issuers' financial health before deploying capital in today's credit market environment
- Though volumes remained lower than last year for the first half of the year, the outlook is becoming more favorable
- Notwithstanding the market volatility, there is still opportunity for steady performers in certain industries seeking capital to lock in advantageous credit terms

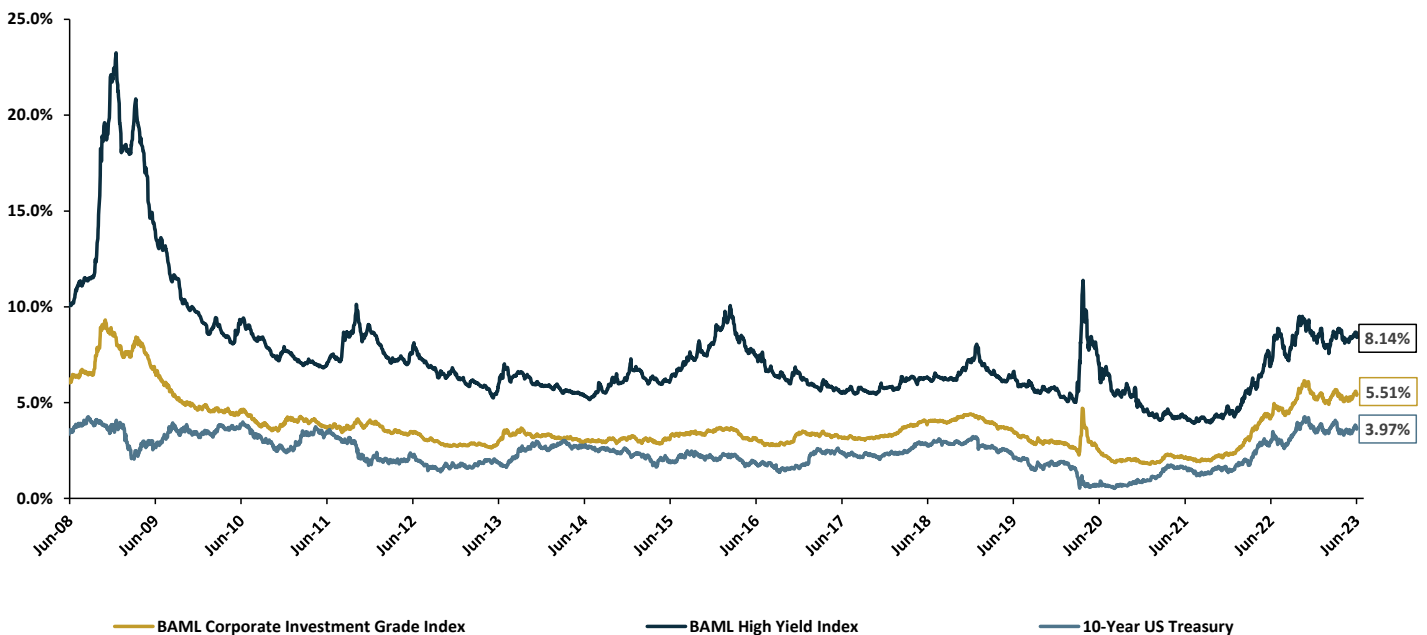
U.S. Leveraged Loan Issuance



Historical Debt Multiples of Highly Leveraged Loans



Interest Rates



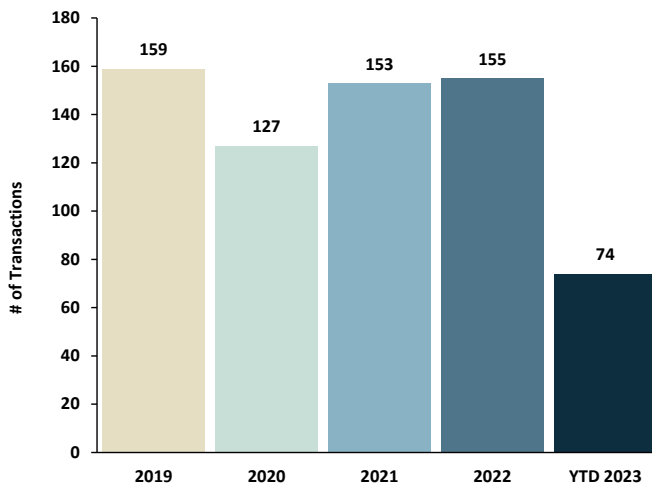
Chartwell Commentary

Merger & Acquisition Observations

While U.S. M&A deal volume declined 28.5% with aggregate deal value decreasing by a drastic 45.4%, those covering the AE market would report insulation from these M&A trends. In fact, most AE dealmakers would say we have yet to experience a slowdown and few would forecast a slowdown in the near term. If you eliminate the lost COVID quarter in 2020, AE deal volume has been elevated and remarkably steady over the past five years. Demand for companies remains strong from both strategic and financial buyers, particularly as PE and family offices continue to reach lower into the middle market.



M&A Activity: AE Industry

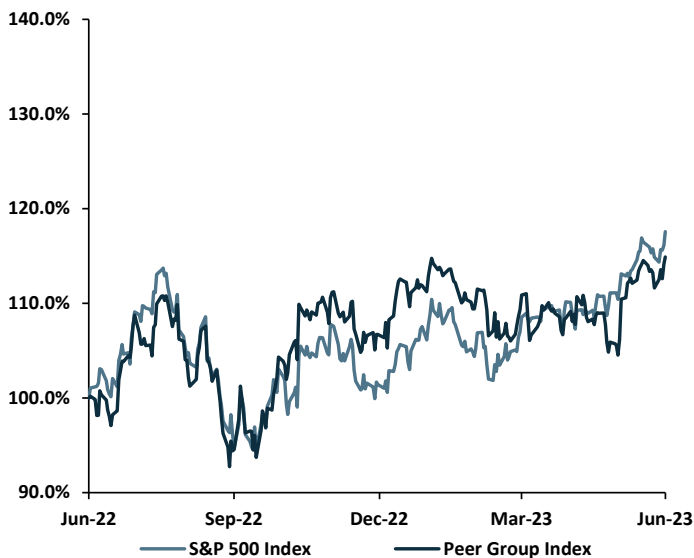


Source: Capital IQ

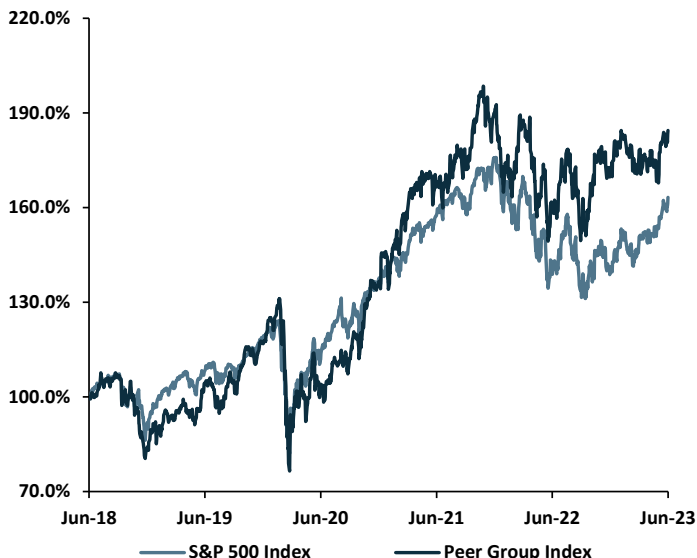
Guideline Public Company Observations

With the market correction in the first half of 2022 more than twelve months in the rear view mirror, the financial performance and equity returns for most of the Peer Group is notably positive. Median revenue growth of 4.9% along with median EBITDA growth of 17.7% has resulted in median equity growth of 23.5% (all during the LTM). In the second quarter of 2023, the entire Peer Group experienced positive equity growth with a median increase of 7.8%. After a small period of outperformance between October 2022 and February 2023, the Peer Group has once again fallen back in line with the S&P 500 and save for the outperformance leading up to and immediately following the passing of the IJJA, the Peer Group continues to be highly correlated with the overall market performance.

One-Year Index Performance



Five-Year Index Performance



AE Index Market & Financial Performance

Company	Ticker	Enterprise Value				Equity Value			
		6/30/2023	Q2 Δ	YTD Δ	LTM Δ	6/30/2023	Q2 Δ	YTD Δ	LTM Δ
Jacobs Solutions Inc.	NYSE:J	18,026	1.0%	(0.7%)	(5.5%)	15,081	1.3%	(0.8%)	(7.8%)
AECOM	NYSE:ACM	13,050	1.2%	0.9%	23.6%	11,772	0.5%	(0.0%)	28.0%
WSP Global Inc.	TSX:WSP	19,522	3.0%	12.3%	30.3%	16,472	1.1%	14.0%	23.5%
SNC-Lavalin Group Inc.	TSX:SNC	6,159	7.3%	31.8%	41.3%	4,607	6.9%	48.9%	52.7%
Parsons Corporation	NYSE:PSN	5,638	8.0%	4.6%	24.3%	5,048	7.8%	5.4%	20.4%
Stantec Inc.	NYSE:STN	8,592	10.4%	28.0%	38.6%	7,253	11.9%	36.6%	49.4%
Tetra Tech Inc.	NasdaqGS:TTEK	9,562	20.9%	23.0%	29.4%	8,716	11.5%	13.3%	18.9%
NV5 Global Inc.	NasdaqCM:NVEE	1,877	15.1%	(10.0%)	1.3%	1,740	7.8%	(15.5%)	(3.8%)
Montrose Environmental Group Inc.	NYSE:MEG	1,516	16.4%	(2.3%)	22.5%	1,267	18.9%	(3.9%)	26.4%
Willdan Group Inc.	NasdaqGM:WLDN	345	11.1%	1.3%	(27.4%)	258	23.6%	8.9%	(29.0%)
Bowman Consulting Group Ltd.	NasdaqGM:BWMN	482	13.9%	53.2%	208.3%	452	15.8%	53.0%	177.0%
Average		7,706	9.8%	12.9%	35.1%	6,606	9.7%	14.5%	32.3%
Median		6,159	10.4%	4.6%	24.3%	5,048	7.8%	8.9%	23.5%

Company	Revenue			EBITDA			EBITDA Margin		
	LTM \$	LTM Δ	NTM Δ	LTM \$	LTM Δ	NTM Δ	5-Year Avg.	LTM	NTM
Jacobs Solutions Inc.	15,585	8.4%	6.6%	1,353	(7.4%)	14.0%	8.4%	8.7%	9.3%
AECOM	13,540	2.2%	6.8%	911	7.0%	11.8%	5.8%	6.7%	7.0%
WSP Global Inc.	9,394	23.8%	NA	898	30.3%	NA	8.5%	9.6%	NA
SNC-Lavalin Group Inc.	5,679	(4.7%)	2.7%	309	8.1%	81.5%	4.9%	5.4%	9.6%
Parsons Corporation	4,420	18.3%	6.2%	426	25.5%	(3.0%)	NA	9.6%	8.8%
Stantec Inc.	3,426	12.3%	10.3%	415	20.7%	51.0%	11.6%	12.1%	16.6%
Tetra Tech Inc.	3,163	16.0%	21.9%	402	19.0%	25.6%	11.6%	12.7%	13.1%
NV5 Global Inc.	781	5.0%	17.2%	113	(7.4%)	44.3%	14.0%	14.5%	17.9%
Montrose Environmental Group Inc.	541	(1.1%)	11.1%	60	(16.6%)	26.2%	NA	11.1%	12.6%
Willdan Group Inc.	440	20.0%	18.5%	26	15.4%	36.4%	6.9%	6.0%	6.9%
Bowman Consulting Group Ltd.	285	67.2%	19.2%	18	134.8%	174.2%	NA	6.4%	14.6%
Average	4,483	5.5%	6.8%	355	10.7%	52.4%	8.2%	8.7%	11.4%
Median	3,392	4.9%	6.1%	301	17.1%	27.7%	8.0%	8.4%	10.2%

\$ in millions

Source: Capital IQ, Data as of 6/30/2023

LTM = Last Twelve Months | NTM = Next Twelve Months

AE Index Implied Market Multiples

Company	Enterprise Value / EBITDA					Q2 Δ	YTD Δ	LTM Δ
	5-Year Avg.	6/30/ 2022	12/31/ 2022	3/31/ 2023	6/30/ 2023			
Jacobs Solutions Inc.	14.3x	13.1x	13.8x	13.5x	13.3x	-0.2x	-0.5x	+0.3x
AECOM	12.5x	12.4x	14.8x	14.5x	14.3x	-0.2x	-0.5x	+1.9x
WSP Global Inc.	20.6x	21.8x	22.3x	22.7x	21.7x	-0.9x	-0.6x	-0.0x
SNC-Lavalin Group Inc.	NA	15.3x	17.9x	20.8x	19.9x	-0.8x	+2.0x	+4.7x
Parsons Corporation	NA	13.3x	14.6x	13.1x	13.2x	+0.1x	-1.3x	-0.1x
Stantec Inc.	16.8x	18.0x	18.7x	19.9x	20.7x	+0.8x	+2.0x	+2.7x
Tetra Tech Inc.	21.2x	21.9x	21.1x	20.9x	23.8x	+2.8x	+2.6x	+1.9x
NV5 Global Inc.	16.2x	15.1x	16.7x	14.1x	16.5x	+2.5x	-0.1x	+1.4x
Montrose Environmental Group Inc.	NA	17.2x	24.5x	21.2x	25.2x	+4.0x	+0.7x	+8.1x
Willdan Group Inc.	17.9x	20.7x	21.3x	16.5x	13.0x	-3.5x	-8.2x	-7.7x
Bowman Consulting Group Ltd.	NA	20.2x	23.5x	24.5x	26.5x	+2.1x	+3.0x	+6.3x
Average	17.1x	17.2x	19.0x	18.3x	18.9x	+0.6x	-0.1x	+1.8x
Median	16.8x	17.2x	18.7x	19.9x	19.9x	+0.1x	-0.1x	+1.9x

Source Data Provided by Capital IQ as of 6/30/2023
LTM = Last Twelve Months

Merger & Acquisition Detail

Western Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Primary Sector
1/1/2023	Bennett Engineering Services + Y&C Transportation	Bennett Engineering Services Inc.	Roseville, CA	Civil engineering
1/1/2023	ACC Environmental Consultants Inc.	HydroCon Environmental LLC	Vancouver, WA	Environmental engineering
1/9/2023	AXIS/GFA Architecture + Design	Caron Architecture LLC	Seattle, WA	Architecture
1/19/2023	KVP Holdings LLC	Station Electric Inc.	Irvine, CA	General engineering
1/23/2023	Delawie	SimonGlover Inc.	Long Beach, CA	Architecture
2/1/2023	Merrick & Company Inc.	Mountain Waterworks Inc.	Boise, ID	Water engineering
2/22/2023	RMA Group Inc.	GeoTest Services Inc.	Bellingham, WA	Geotechnical engineering
3/9/2023	Verdantas LLC	Leighton Consulting Inc.	Irvine, CA	Environmental engineering
3/21/2023	Read Jones Christoffersen Ltd.	Kordt Engineering Group LLC	Las Vegas, NV	Civil and structural engineering
3/21/2023	Atwell LLC	The Blueline Group LLC	Kirkland, WA	Civil engineering
3/31/2023	The HFW Companies LLC	Taney Engineering Inc.	Las Vegas, NV	Civil engineering
4/1/2023	Trihydro Corp.	Ridgepoint Consulting	Sheridan, WY	Civil engineering
4/11/2023	The Getty Research Institute	Levin & Associates Inc.	Los Angeles, CA	Architecture
6/13/2023	Bowman Consulting Group Ltd.	Advanced Applied Engineering Inc.	Brea, CA	Civil engineering
6/30/2023	Westwood Professional Services Inc.	Peloton Land Solutions Inc.	Reno, NV	Civil engineering

Merger & Acquisition Detail

Southwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Primary Sector
1/24/2023	Stratus Team LLC	Morris & Associates, Engineers LLC	Cypress, TX	Infrastructure engineering
1/31/2023	GI Manager LP	Atlas Technical Consultants Inc.	Austin, TX	Testing engineering
1/31/2023	The Shaw Group	KP Engineering LP	Tyler, TX	Petrochemical engineering
5/4/2023	H. W. Lochner Inc.	K Friese & Associates Inc.	Austin, TX	Civil engineering
5/8/2023	Surveying & Mapping LLC	GeoSolutions LLC	The Woodlands, TX	Geospatial engineering
5/9/2023	Colliers Engineering & Design Inc.	Hilgartwilson LLC	Phoenix, AZ	Civil engineering
5/31/2023	The Kleinfelder Group Inc.	Doucet & Associates Inc.	Austin, TX	Environmental engineering
6/5/2023	Bowman Consulting Group Ltd.	MTX Surveying Inc.	Marshall, TX	Geospatial engineering
6/6/2023	Universal Engineering Sciences LLC	Riner Engineering Inc.	Houston, TX	Geotechnical engineering
6/8/2023	Huitt-Zollars Inc.	Gavan & Barker Inc.	Phoenix, AZ	Civil engineering
6/30/2023	Westwood Professional Services Inc.	Peloton Land Solutions Inc.	Fort Worth, TX	Civil engineering

Midwestern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Primary Sector
1/1/2023	Fishbeck, Thompson, Carr & Huber Inc.	Envirologic Technologies Inc.	Kalamazoo, MI	Environmental engineering
1/3/2023	Horner & Shifrin Inc.	Clarida & Ziegler Engineering Co.	Marion, IL	Municipal engineering
1/23/2023	RINA Consulting SpA	Patrick Engineering Inc.	Lisle, IL	Infrastructure engineering
1/25/2023	Valicor Environmental Services LLC	Clean Water Environmental LLC	Dayton, OH	Water/wastewater engineering
3/21/2023	The Lawrence Group Inc.	Kwk Architects LLC	St. Louis, MO	Architecture
3/31/2023	Vierbicher Associates Inc.	Mau & Associates LLP	Green Bay, WI	Civil engineering
4/3/2023	TWIG Technologies LLC	Ruettiger, Tonelli & Associates Inc.	Shorewood, IL	Civil engineering
4/10/2023	Stantec Inc.	Environmental Systems Design Inc.	Chicago, IL	Environmental engineering
4/25/2023	Colliers Engineering & Design Inc.	Rapc Legacy Inc.	Southfield, MI	Architecture
5/4/2023	CBRE Group Inc.	Millman National Land Services	Canton, OH	Geospatial engineering

Northeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Primary Sector
1/3/2023	Tighe & Bond Inc.	WTE Holdings LLC	Woburn, MA	Civil engineering
1/5/2023	Covanta Holding Corp.	Global Remediation Services Inc.	East Taunton, MA	Environmental engineering
1/6/2023	ATI Restoration LLC	Omni Environmental LLC	Salem, NH	Environmental engineering
1/12/2023	Verdantas LLC	Borton-Lawson Engineering Inc.	Wilkes-Barre, PA	Control system engineering
1/25/2023	Champion Painting Specialty Services Corp.	WRS Environmental Services Inc.	Yaphank, NY	Environmental engineering
1/27/2023	H2M Architects & Engineers	Crew Engineers Inc.	Butler, NJ	Civil engineering
1/31/2023	HUNT Engineers, Architects, Land Surveyors & Landscape Architect DPC	Shumaker Consulting Engineering & Land Surveying DPC	Binghamton, NY	Civil and environmental engineering
2/1/2023	Montrose Environmental Group Inc.	Environmental Alliance Inc.	Hockessin, DE	Environmental engineering
2/6/2023	GZA GeoEnvironmental Inc.	Equity Environmental Engineering LLC	Mount Olive, NJ	Environmental engineering
3/6/2023	Barton & Loguidice DPC	JTM Associates LLC	Bridgeport, NY	Environmental engineering
4/5/2023	IMEG Corp.	Cameron Engineering & Associates LLP	Woodbury, NY	Civil engineering
5/4/2023	CHA Consulting Inc.	Javan Engineering Inc.	Fort Washington, PA	Industrial engineering

Merger & Acquisition Detail

Northeastern Region (continued)				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Primary Sector
5/10/2023	Pinchin Ltd.	Ransom Consulting LLC	North Andover, MA	Civil engineering
5/15/2023	True Environmental	Matrix Engineering & Geotechnical Services Inc.	Florham Park, NJ	Environmental engineering
5/22/2023	SAM-Construction Services LLC	MTPLS Land Surveyors LLC	Baltimore, MD	Geospatial engineering
6/16/2023	Surveying & Mapping LLC	AXIS GeoSpatial LLC	Easton, MD	Geospatial engineering

Southeastern Region				
Announce/ Close Date	Acquirer	Target	Target HQ Location	Target Primary Sector
1/4/2023	WGI Inc.	Anston-Greenlees Inc.	Tampa, FL	Facilities engineering
1/4/2023	Universal Engineering Sciences LLC	Carmichael Engineering Inc.	Montgomery, AL	Geotechnical engineering
1/18/2023	Moffatt & Nichol Inc.	Waggoner & Ball LLC	New Orleans, LA	Urban planning engineering
1/20/2023	Superior Environmental Solutions LLC	Mountain Environmental Services Inc.	Canton, NC	Environmental engineering
1/24/2023	NA	Vecta Environmental Services LLC	Gonzales, LA	Environmental engineering
1/31/2023	Michael Graves Architecture & Design	Walter Robbs Architects PA	Winston-Salem, NC	Architecture
2/1/2023	Littlejohn & Co. LLC	Ardurra Group Inc.	Cape Coral, FL	Environmental engineering
2/10/2023	Neel-Schaffer Inc.	Calvert-Spradling Engineers Inc.	West Point, MS	Civil engineering
2/21/2023	KCI Technologies Inc.	Armeni Consulting Services LLC	Suwanee, GA	Civil engineering
3/8/2023	MR Engineering & Surveying LLC	R. James Tatum Inc.	Baton Rouge, LA	Civil engineering
3/30/2023	Michael Graves Architecture & Design	PGN Architects PLLC	Washington, DC	Architecture
4/1/2023	LS3P Associates Ltd.	Ebert Norman Brady Architects PA	Jacksonville, FL	Architecture
4/3/2023	SAM-Construction Services LLC	Carolina Surveying Services Inc.	Lexington, SC	Geotechnical engineering
4/5/2023	Hurt & Proffitt Inc.	Reynolds-Clark Development Inc.	Gretna, VA	Environmental engineering
4/8/2023	Oaktree Capital Management LP	Enercon Services Inc.	Kennesaw, GA	Environmental engineering
4/11/2023	Universal Engineering Sciences LLC	Grubbs, Hoskyn, Barton & Wyatt Inc.	Little Rock, AR	Geotechnical engineering
4/27/2023	LJA Engineering Inc.	Carter Associates Inc.	Vero Beach, FL	Civil engineering
5/17/2023	Bowman Consulting Group Ltd.	Hole Montes Inc.	Naples, FL	Civil engineering
5/18/2023	Goodwyn, Mills & Cawood Inc.	CSS Inc.	Easley, SC	Civil engineering
5/23/2023	Little Diversified Architectural Consulting Inc.	Hughes Group Architects Inc.	Sterling, VA	Architecture
6/19/2023	Net@Work Inc.	Paragon Consulting Group Inc.	Griffin, GA	Civil engineering
6/21/2023	Kaas Wilson Architects LLC	Wally Two Inc.	Charlotte, NC	Architecture
6/22/2023	GAI Consultants Inc.	Eland Engineering LLC	Fort Lauderdale, FL	Civil engineering

Source: Capital IQ, Data as of 6/30/2023

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