

A/E/C Mergers & Acquisitions Trends – 2018 and Beyond

© 2018 Stonemill Partners

We often get asked if it's a good market to sell a business. We get asked about what we are seeing in the market as it relates to mergers and acquisitions in the architectural and engineering space. This article will share with you our outlook for the coming year and trends that we are seeing. Consider these as you plan your transition. It will be clear by the end of the article that timing to sell a business is better than it has been in a long, long time. How long that will last? We aren't sure but the trend points below, that are expanded on in this article, will help predict that.

- Number of Companies Buying and Selling
- Higher Captured Value When Selling
- All Size Firms Buying and Selling
- Firms Need People
- Demographics contributing to more firms for sale
- Timelines of transition starting earlier than later
- Selling on an upward trend
- Firms seeking an M & A Advisor that Is a Specialist in the A/E/C industry
- Younger partners staying on in transition

Number of Companies Considering and Involved in Buying and Selling

Right now, the market is good for acquisitions. Firms are performing better than the past. Firms are making more money. They therefore have cash to spend. Firms need people and are now more in a position to implement their growth strategies. As long as the economy cooperates and as long as private client budgets, governmental and municipality budgets and educational budgets are intact and even on the rise, this level of business activity will continue and the mergers and acquisitions market will continue to be good.

Captured Value of a Firm When Selling

Value captured for firms selling have moved up this past year and will be at this level or higher for the coming year. Value based on multiples has increased with multiples increasing. Multiples are still dependent on markets, trends, size of company and more but overall, they are in the upward direction.

All Size Firms Making Acquisitions and Selling

When you look at Demographics and the majority of firms on the upswing, the number of firms selling are also on the upswing. This is true for firms of all sizes. The bigger firms want to be larger and more global. The mid-size firms want to get out of the gap. The smaller firms want to grow larger, capture value, retire or transition. All of this leads to all size firms selling and all size firms buying.

Firms Need People/Capacity

When firms get busy they need capacity. Capacity usually means people to manage, plan, design and complete projects. With not enough people, business is turned down and growth is limited. Those firms adding people, finding the necessary people and acquiring to gain more people will grow and prosper. This is a trend and is expected to continue for the coming year and thereafter.

Demographics contributing to more firms for sale

Baby boomers are reaching an age where it is time to sell their firms. It is most prudent to not wait until the firm is declining to sell. Selling a firm on the uptrend trend now will maximize your value as it sometimes takes 12 months of the selling process to sell and a transition for selling owners to stay on with new owners is typically 3 years. Take advantage of this timing and start now as things are good and on the rise. More and more baby boomers selling their firms will increase this activity.

Timelines of transition starting earlier than later

It can take 8 – 14 months to find the right buyer for an acquisition; sometimes it happens quicker and sometimes it takes longer but for purposes of this point, call it a year. That year plus a 2 to 3 - year transitional employment agreement with the buyer (new owner) suggests that if you want to completely transition out of your business, the total time frame is 3-4 years. That suggests that if that is your time frame, the time to start is now. More and more firms are starting to realize this, with demographics affecting it and with sellers realizing there is transition employment with a new owner involved. This is leading to a trend of transitions starting earlier than later, again fueling a good acquisitions market.

Sellers Realizing the Benefits of Selling a Business While Business is Good and/or On An Upward Trend

Buyers are skeptical of firms that are declining in sales and profits and will offer much lower multiples as an offer price. Many sellers had a good year last year and now want to capture an increased value along with their favorable timing for selling. More and more firm owners are getting educated about how buyers treat trends and good operating performance and are contributing to the good acquisitions market. This is expected to continue as firm owners research and learn about transitions and acquisitions.

Firm Owners Seeking Out Industry M & A Professional/Specialist

In view of selling owners researching and learning about transition and acquisition, they are calling on specialists and experts that work within the A/E/C industry vs. working with traditional accountants, strategists and general advisors. There are only a few that focus on the A/E/C industry and less than that representing sellers as their primary focus. Smart business people are seeking industry M & A experts to advise on value, the process, agreement development, transition and the maximization of the deal. This trend will continue as more firms transition.

Firms developing leadership as they realize that buyers want younger partners staying on in transition –

Buyers understand that talent is the most important asset of a firm that they are purchasing and will make sure that they take care of the staff and key employees in the acquisition/merger. This translates into needs for a firm to have a good “Bench,” a good second line of leadership as firms grow and older owners transition out. Firms are realizing this for a successful transition and are investing in the next line of leadership. One of the first questions from a prospective buyer as they investigate a potential acquisition is what does the next line of leadership look like. A lack of a second line of leadership can decrease value in a firm. This trend will continue in the coming year and beyond.

A brief note about Stonemill Partners:

Stonemill Partners specializes in representing firms in the A/E/C space for acquisition, across the USA. You can discover more about the Stonemill Partners' approach and see listings of firms available at www.stonemillpartners.com.

Patrick@stonemillpartners.com - 770-510-9367

Al@stonemillpartners.com - 630-740-1397