

### **Value for Architectural/Engineering Firms – Myth Busters**

When we talk to business owners, principals and partners of Architectural and Engineering firms the subject of value usually comes up. Most owners are at a point in their career where they are ready to divest themselves of their business and move into the next chapter of their lives/careers or wind down in transition.

In order to determine the feasibility of that, a business owner must evaluate how much they would get from their business upon a sale to another.

Since we get this question often, we want to offer a few tid-bits of information for your consideration as well as myth-busting facts related to value.

#### **OBSERVATIONS/FACTS:**

- At the end of the day, a business is worth what a buyer is willing to pay and what a seller is willing to accept.
- If your business is valued too highly, it won't sell. It's that simple. If your business is valued is too low, you leave money on the table. Neither are necessarily desirable when considering a business sale.
- The valuation process looks at historical revenue and profits. The most widely accepted valuation methodology by buyers is the multiple of adjusted cash flow (see below) method.
- Unlike real estate and the selling of houses, where sales of similar property types primarily determine the market prices, no two businesses are the same and therefore comparable sales, only or "Rules of Thumb" valuations are not very effective.
- When you look at all of the intangibles of a typical Architecture and Engineering firm, a lack of any substantial hard assets, product or inventory, the high percentage of Goodwill in a typical sale, and the common issue in owner operated firms where the seller or partners is/are often "the business", it can be a major challenge when establishing a proper valuation and typical methods don't always hold true.
- Business owners, principals and partners are typically emotionally tied to the business and so when the time comes to sell, logic usually goes out the window. Typically, what an owner thinks their business is worth, rarely has anything to do with its value. There are solutions for that.

## **BUSINESS VALUE - MYTH BUSTERS:**

With all of that being said, here are Myth-Busters related to value, compared to what you might have heard and what is real:

- Architectural and Engineering firms are not like manufacturing and other business that have significant amounts of inventory and equipment. In these businesses, buyers will usually pay a 3 to 4 multiple of adjusted cash flow plus the value of the equipment which equals the 6 to 8 multiples that we hear from advisors who do not specialize in the Architecture and Engineering fields. Architecture and Engineering firms do not have much value in inventory and equipment, so they typically see a 3 to 4 multiple as a selling price/value.
- Buyers and acquirers of engineering and architectural firms always base their offers on historical numbers not projections. Buyers are almost always focused on the last 3 years of completed financials. A buyer will focus on the trend of the current year plus the amount of work under backlog, but they will not pay multiples on future year's projections.
- Buyers and acquirers of Architecture and Engineering firms are strategic purchasers that are expanding capacity, adding people, diversifying product/service offering, creating more geographic presence and more. There are many reasons, firms make acquisitions. It is not conducive to throwing a bid out in an auction. Understanding strategic fit, focus and culture are key. Private equity firms and other bid/auction buyers are not strategic purchasers.
- In an Architecture and Engineering firm, the key to acquisitions is the synergy obtained. This comes from employees, selling owners, principals, key employees, skill sets and client relationships. This is not conducive to a bid/auction process because the culture of the firms must match.
- The sale of your firm will NOT involve an auction for potential buyers to bid on your business. Auctions are popular for private equity firms buying manufacturing, technology and other businesses, not professional service business like Architecture and Engineering firms.
- Most states, if not all, require certain licensing requirements to own an architectural or engineering firm. Most require a registered architect or a professional engineer to have ownership. It is very hard for private equity firms and other non-engineering or non-architectural businesses to fulfill this requirement and comply with the regulations and to sustain this requirement on an ongoing basis.
- To get an idea of what the real value of your firm is, contact Stonemill Partners, Inc. today. We only work in your industry, are very focused and measure our valuations against what businesses sell for, that we represent. We find that our valuations are generally close or spot on to what a buyer usually pays for that firm. Our focus and

perspective from the buyer's point of view bodes well for us, our clients and eventually buyers.

A brief note about Stonemill Partners:

We specialize in representing architectural firms, interior design firms and engineering and related firms for acquisition, across the USA.. You can discover more about the Stonemill Partners' approach and see our listings at [www.stonemillpartners.com](http://www.stonemillpartners.com).

Al Lautenslager / Patrick Neal  
Co-Managing Partners  
Stonemill Partners, Inc.  
5200 Dallas Highway - Suite 200-110  
Powder Springs, Georgia 30127  
[al@stonemillpartners.com](mailto:al@stonemillpartners.com)  
[Patrick@stonemillpartners.com](mailto:Patrick@stonemillpartners.com)

Ph: 630-740-1397

[www.stonemillpartners.com](http://www.stonemillpartners.com)