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M&A FOR THE BUILT ENVIRONMENT



HOW MUCH IS YOUR COMPANY WORTH?



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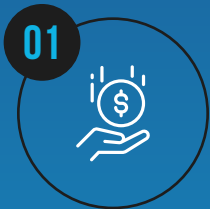
M&A FOR THE BUILT ENVIRONMENT

Whether you're buying a company in the built environment (architectural, engineering, or construction company) or selling, it's vital to understand how the industry and buyers value companies. The following basics will give you a good understanding of how to value a company.

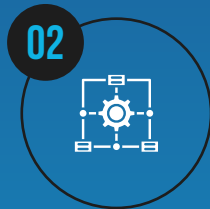
In today's market, everything from the management structure to the project types that you specialize in are considered when determining how much a company is worth.

THE 10 FACTORS

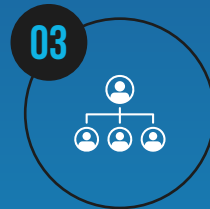
That Determine How Much Your Company in the Built Environment Is Worth:



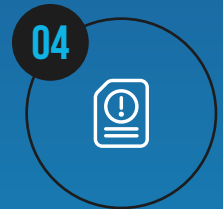
EARNINGS HISTORY



BACKLOG



MANAGEMENT STRUCTURE



DIVERSIFIED RISK



COMPETITIVE ADVANTAGES



GROWTH POTENTIAL



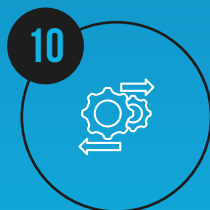
INDUSTRY



LOCATION



COMPS



TRANSITION STRUCTURE

01

EARNINGS HISTORY



The most important factor in determining your company's worth is if it's making money and how much it's making. Buyer's focus on Adjusted EBITDA (Adjusted Earnings before Interest, Taxes, Depreciation and Amortization), the adjusted pure net profit of a company.

To calculate your company's Adjusted EBITDA: Start with the company's pre-tax, pre-interest earnings. Then, add back in any expenses that aren't essential to operations or are non-cash items, and any expenses that a new buyer will not incur (for example: depreciation and amortization), charitable donations, discretionary bonuses to owners and one-time purchases to name a few. If the owner's salary is above or below market rates, then the salary will have to be adjusted to market rates. The same for rent. If the company owns its own building, then the rent will need to be adjusted upwards or downwards to market rates.

Simply put, when determining how much your company is worth, the most important factor is how much money the company is making.

02

BACKLOG



The amount of backlog (work under contract) and pipeline (proposals submitted but not yet contracted), along with the structure of those contracts, plays a crucial role in valuation. For some buyers, this can be the golden ticket in determining your company's worth. We'll need a thorough understanding of your backlog and pipeline, and we'll also explore key questions such as:

- Do you have long-standing, recurring clients?
- How long are your contracts? Are they assignable?
- What is your client retention rate?
- Do you have one large client that makes up a significant part of your revenue or is your revenue dispersed among a lot of smaller to mid-size clients?

The answers to these questions among others will help our team determine the value of your company.

03

MANAGEMENT STRUCTURE



For companies in the built environment, the owner's role within the company as well as the structure of the management and leadership team is vital. In most cases, the owner has a role in the day-to-day operation of the company, so buyers want to garner a thorough understanding of how the business will operate once you step-away. When determining how much your company is worth, we will dive into questions like:

- What are the roles of each member of your management team?
- How long have they been with the company?
- What is their commitment to stay on board after the sale process is complete?
- Who are other key employees that are vital to business operations?
- How will the company culture be impacted if you were to leave?

04

DIVERSIFIED RISK



Buyers will want to fully understand your risk portfolio and how that is factored into the valuation of your company. When determining how much your company is worth, buyers will want to understand:

- Do you have significant monthly overhead?
- What happens when you're not there?
- What is the churn-rate of your current clients?
- What is the client concentration make-up? Does any one client make up more than 20% of your total revenue?
- How is new business brought into the company?
- How strong is the future-facing pipeline?
- How long have your employees been at the firm? What are their long-term plans?
- Do you have any outstanding liabilities or litigation that pose a risk to the new buyer?

05

COMPETITIVE ADVANTAGES



This one is simple. Being focused on certain project types can help make your firm easier to sell.

- Is the firm hyper-focused on all or a few project types?
- Does the firm offer one service really well or is the firm a full-service company that offers everything to everyone?
- What does your firm offer that your competition doesn't?

06

GROWTH POTENTIAL



The growth potential of your company is another vital component in determining how much your company is worth. If the firm is vertical based and the industry in which the firm operates is expected to skyrocket over the next 5-10 years, this has a positive impact on the valuation of your company. The opposite is true if your firm operates in an industry that is shrinking. In that case, the industry factors will have a negative impact on the valuation. During the Covid-19 pandemic, companies that focused on healthcare were selling for a premium, while companies that focused in the hospitality sector really struggled to sell.

07

INDUSTRY



For vertical driven or hyper-niche companies, the industry in which your firm operates and the projected economic forecast for that industry will have an impact on how much your company is worth.

08

LOCATION



When selling your company, buyers want to see that the physical location of your company has growth potential. Is it centered in a favorable business environment? However, the importance of this factor is being considered less and less. In today's digital centric business environment, buyers in the built environment are able to purchase businesses (even those with a location focus) and run them remotely. In the post-Covid world, buyers are considering companies that can work remotely successfully. Another location consideration is the actual market size. For buyers that are looking to make acquisitions of companies, mid-major markets are HOT right now! For example, strategic buyers that already have offices in NYC and LA, are looking to expand to markets like Denver or Orlando.

09

COMPS



It's important to understand what similar companies have sold for in the last 6 months to 1 year. Given that there are so many factors that go into understanding a business valuation, this isn't as cut and dry as it is in real estate, but it certainly is a factor that plays into determining how much your company is worth. We will carefully examine those transactions that have sold in the past 6 months to 1 year to determine what factors went into agreeing upon a final sales price.

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TRANSITION STRUCTURE



A solid commitment to a 2-to-3-year transition by the selling owner can really bolster the valuation of the company. If there are time pressing health or other concerns that require that the selling owner exit the company in less than 2 years, this could have a negative impact on the company's value and what someone is willing to pay. On the other hand, if the selling owner is willing to stay on board for 2 to 3 years to ensure a smooth transition, this could have a positive impact on how much your company is worth to a strategic buyer.