



ENGINEERING MARKET OUTLOOK 2026



Executive Summary

~\$430B

U.S. ENGINEERING
SERVICES
MARKET (2026)

~\$2.2T

U.S. CONSTRUCTION
SPENDING (2026E)

4.5x - 10.0x

PRIVATE MID-
MARKET
EV/EBITDA

500+

AE M&A
TRANSACTIONS
(2025)

Engineering Industry at an Inflection Point: Infrastructure, Power, AI and Consolidation Driving Growth

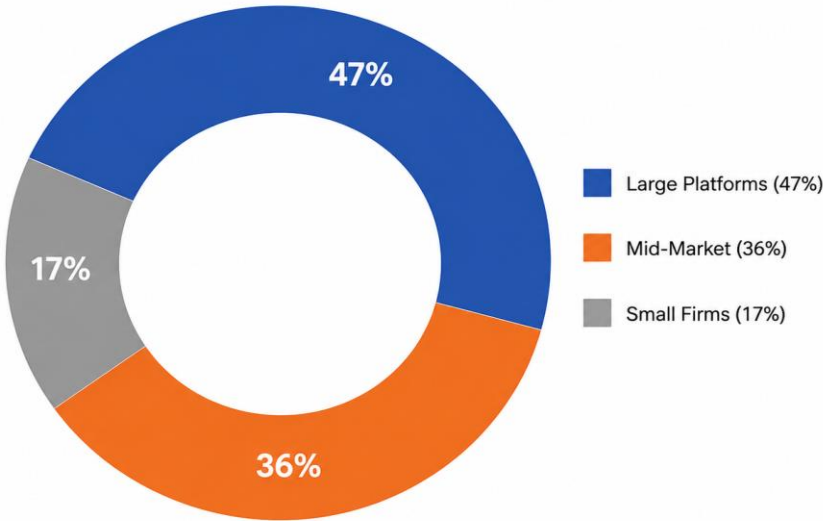
- Engineering demand remains resilient despite elevated rates as federal, state and utility capital moves from authorization into design and procurement.
- Power/grid, data centers, water/wastewater, transportation and advanced manufacturing offer the highest-conviction growth through 2030.
- Private equity consolidation continues across engineering and environmental consulting; private mid-market valuations range from 4.5x to 10.0x EV/EBITDA.
- Firms with contracted backlog, recurring public/utility clients, scarce technical talent and digital delivery capabilities are positioned to command premium valuations.

Engineering Industry Landscape

A Fragmented ~\$430B Market Dominated by Specialty and Multi-Disciplinary Platforms

SEGMENT	FIRM COUNT	REVENUE SHARE	AVG. EBITDA MARGIN
Large Platforms	~250	42%	18-24%
Mid-Market	~3,000	36%	15-21%
Small Firms (<\$10M)	60,000+	22%	10-16%

Revenue Share by Firm Size

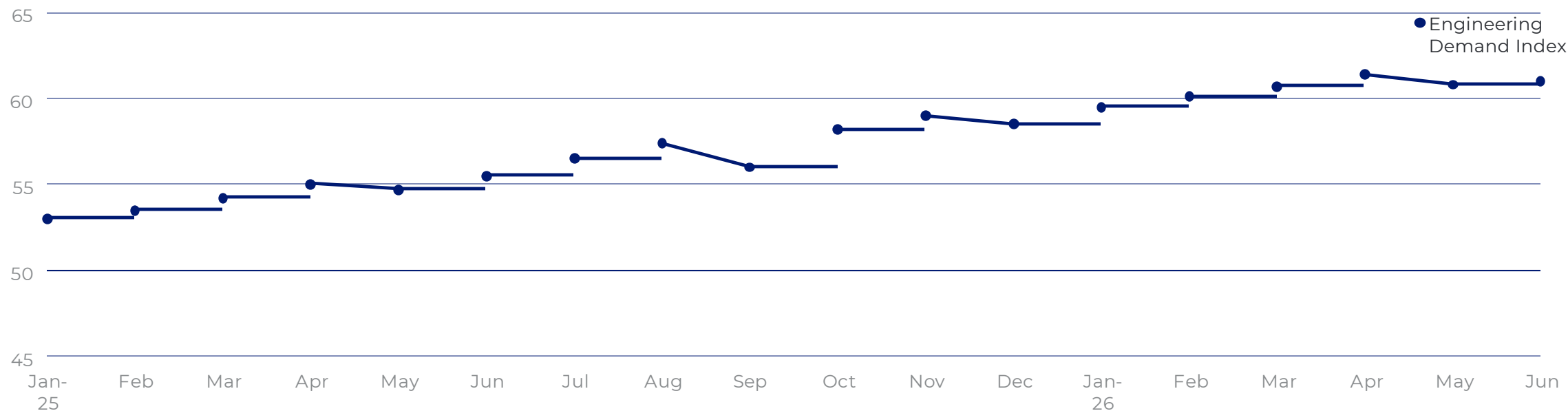


- The U.S. engineering services market remains highly fragmented, with thousands of local and specialty firms serving infrastructure, buildings and industrial clients.
- Recurring public-sector, utility and MSA-based revenue streams create stronger visibility than project-by-project building design work.
- Technology adoption in BIM, digital twins, automated QA/QC and AI-assisted design is widening the gap between scaled platforms and subscale operators.

Source: U.S. Census, ENR, Deltek, FMI, Stonemill Partners Analysis

Engineering Demand & Backlog Index

Engineering Demand Holds Above Neutral - Backlog Visibility Improving in Infrastructure and Power

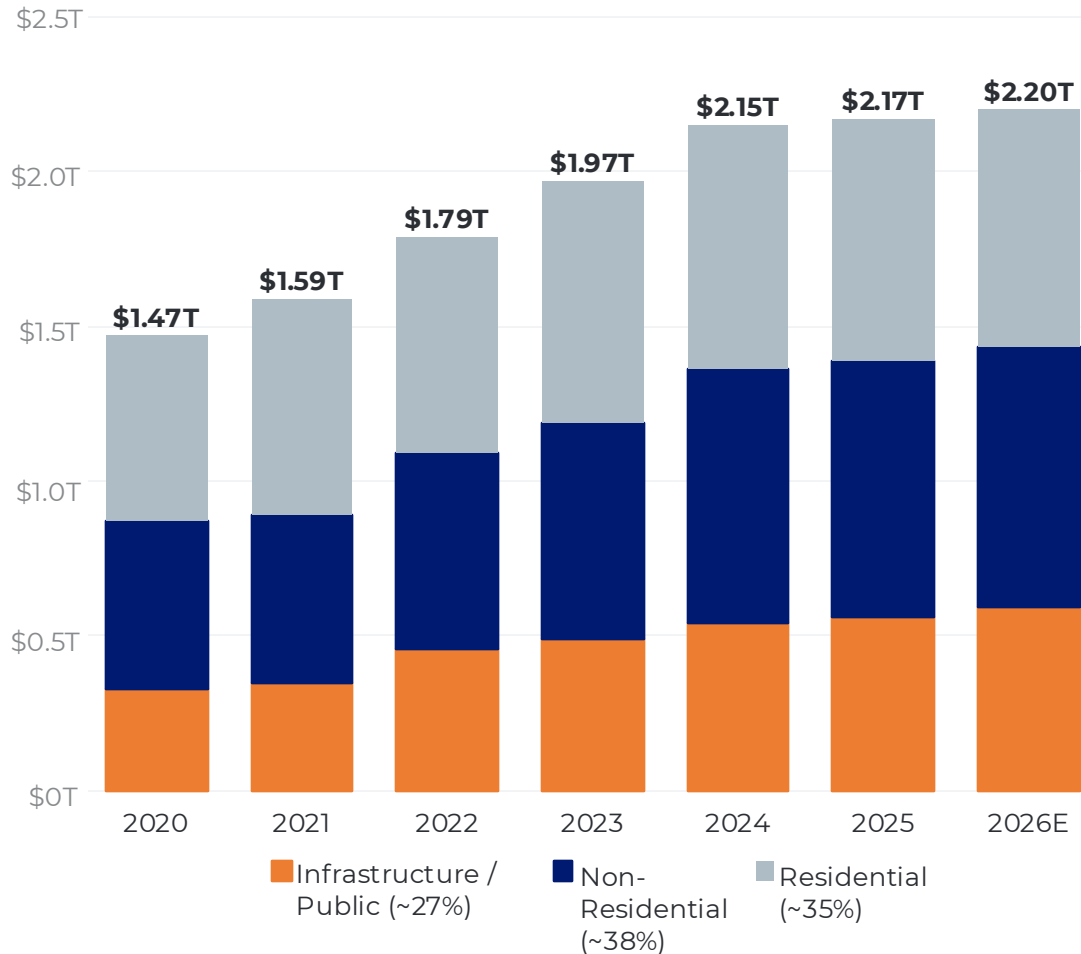


- Index above 50 indicates expanding engineering demand; below 50 indicates contraction. Composite based on backlog, utilization, public funding and sentiment indicators.
- Engineering sentiment remained above neutral through 2025 and early 2026, supported by public infrastructure, water, energy and utility clients.
- Backlog quality is bifurcated: power, data centers and water remain strong, while commercial office-adjacent building engineering is weaker.
- Talent availability, not demand generation, is the primary constraint for specialized disciplines including power, structural, geotechnical and water.
- Funded public and utility programs receive the highest buyer credit in diligence because cancellation risk is lower than speculative private development.
- A 12-18 month contracted backlog is increasingly common among transportation, water and utility-focused engineering firms.
- Pricing remains constructive in specialty verticals where professional engineer licensure and technical capacity are scarce.
- Engineering indicators remain meaningfully stronger than architecture billings in commercial real estate exposed markets.

Source: ACEC, Deltek, ENR, FMI, Dodge, Stonemill Partners Analysis

Construction & Infrastructure Spending Outlook

U.S. Construction Spending Holding Above \$2.1T - Infrastructure, Energy and Digital Economy Drive Engineering Demand



2020-2026E CAGR:

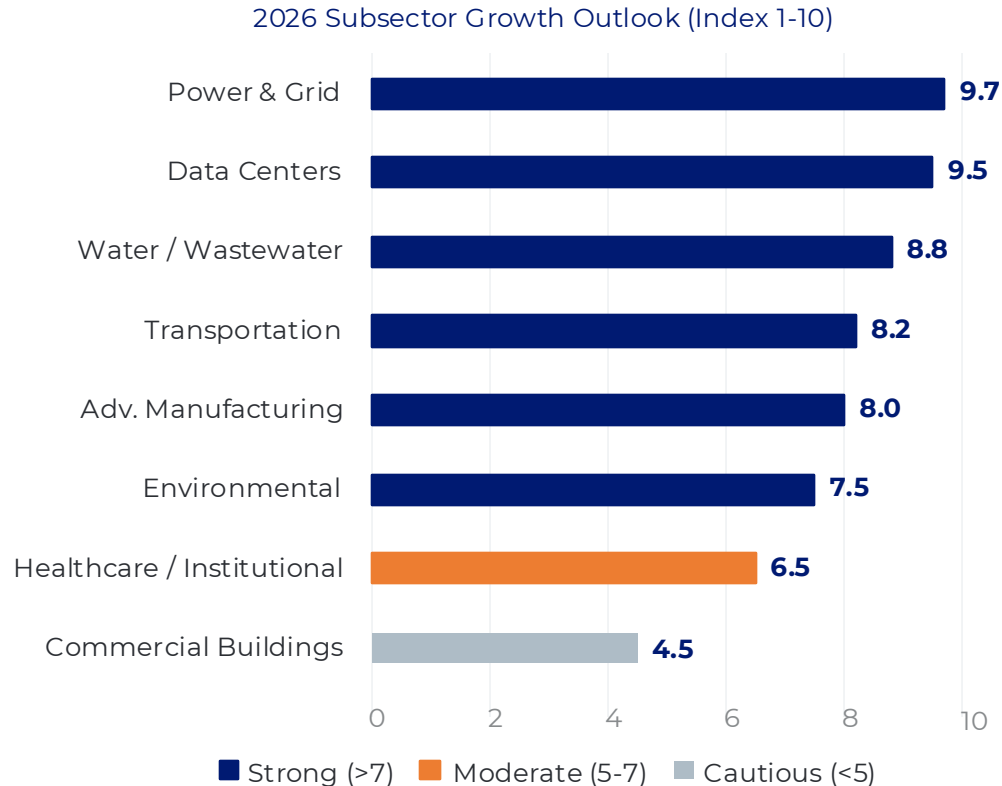
+7.0%

- Total U.S. construction spending remains above a \$2.1T annualized pace, with public, manufacturing and mission-critical categories supporting engineering scope.
- IIJA, CHIPS, utility modernization and state/local capital plans continue to create multi-year preconstruction, design and program management demand.
- Engineering services typically represent 5-12% of civil/infrastructure project cost and 2-5% of complex industrial and process project cost.
- Engineering revenue visibility is stronger than architecture because infrastructure design, inspection and program management run across longer project lifecycles.

Source: U.S. Census, Dodge, FMI, ENR, Stonemill Partners Analysis

Engineering Subsector Outlook

Power, Data Centers and Water Lead Growth; Commercial Buildings Remain Structurally Challenged



- Power and grid engineering is the highest-conviction vertical as AI load growth, electrification, resilience and interconnection constraints drive utility capital expenditure.
- Data centers have evolved from a real estate vertical into an integrated power, civil, water, structural and MEP engineering problem.
- Water/wastewater benefits from aging assets, PFAS and contaminant regulation, stormwater resilience and federal/state revolving-fund deployment.
- Commercial building engineering remains exposed to office vacancy, high financing costs and rate-sensitive private development demand.

Source: FIA, EEI, EPA, AWWA, Dodge, CBRE/JLL, FMI, Stonemill Partners Analysis

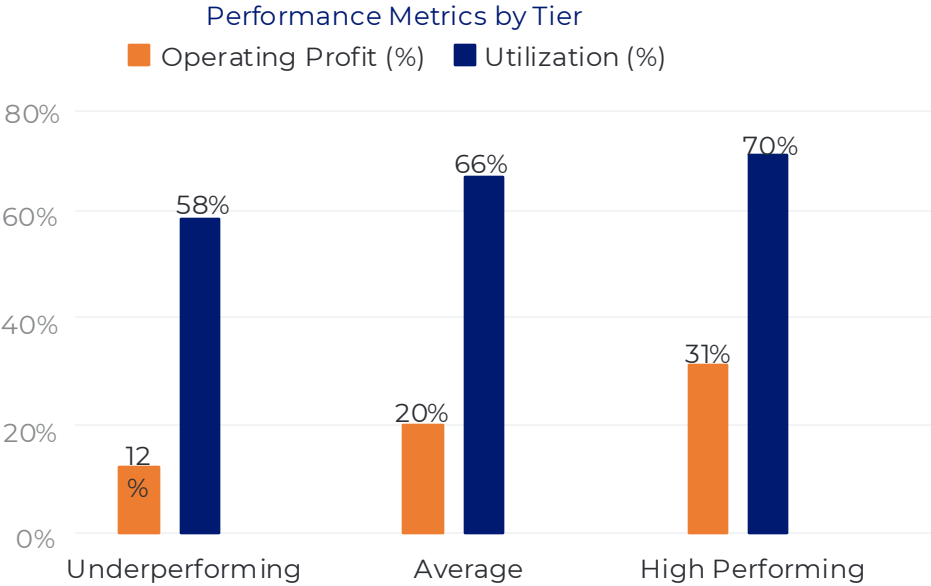
Financial Performance of Engineering Firms

Engineering Firms Deliver 14-31% Operating Profit Margins; Performance Diverges by Scale and Discipline

OPERATING PROFIT
14%-31%
Industry Avg: ~20%

NET REVENUE PER EMPLOYEE
\$185K-\$245K
Industry Avg: ~\$215K

UTILIZATION RATE
62%-70%
Industry Avg: ~66%

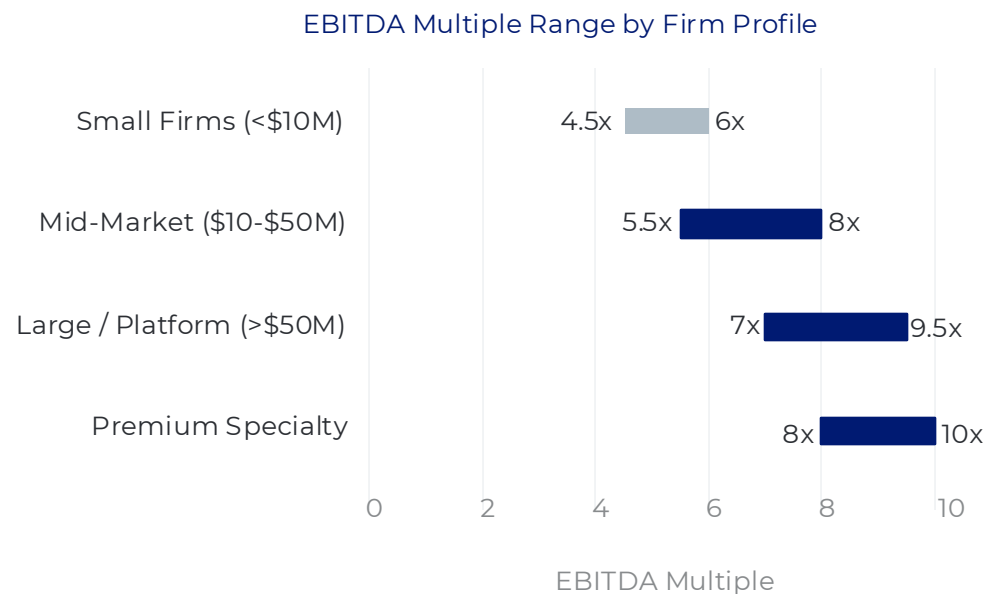


- Top-quartile engineering firms can exceed 30% operating profit through high utilization, disciplined project management and multiplier control.
- Net revenue per employee is supported by higher billing rates, specialized disciplines and technology-enabled design/review workflows.
- Utilization above 65% and backlog conversion are key indicators of scalable delivery, management depth and cultural health.
- Talent remains the greatest margin constraint; senior PM, discipline lead and PE-licensed engineer retention is critical to preservation of value.

Source: Deltek, ACEC, FMI, Stonemill Partners Analysis

Engineering Firm Valuation Trends

Private Mid-Market Multiples Range 4.5x-10.0x EBITDA



- Scarce power, water and mission-critical engineering capabilities are trading at the upper end of the range, reflecting visibility and technical scarcity.
- Platform firms with \$50M+ revenue command a 200-300 basis point multiple premium over subscale peers due to management depth and scalability.

Premium Valuation Drivers

VALUE DRIVER	IMPACT ON MULTIPLE
Power & Utility Engineering Generation, transmission, distribution, interconnection	Very High ██████
Data Centers / Mission Critical Power density, MEP, civil, structural, water	Very High ██████
Water/Wastewater & Environmental PFAS, resilience, SRF-funded programs	High ██████
Recurring Government / Utility Contracts MSAs, on-call, DOT and municipal clients	High ██████
Strong Funded Backlog >12 months of contracted forward revenue	High ██████
Digital Delivery & Automation BIM, digital twins, automated QA/QC	Moderate ██████

- Buyers give more credit to backlog quality than nominal backlog size; funded public and utility work receives the highest credit in diligence.
- Revenue-based markers of 0.8x-1.6x net revenue appear where EBITDA is reinvested in high-growth technical capacity.

Source: PitchBook, GF Data, Deltek, Stonemill Partners Proprietary Transaction Data

M&A Activity in Engineering

PE-Backed Consolidation Accelerating - Infrastructure and Utility Platforms Command Premium Valuations

Private Equity Platforms

45-55% of Volume

Buy-and-build strategies targeting power, water, environmental, transportation and specialty engineering firms.

Strategic Acquirers

30-40% of Volume

Large AEC firms seeking geographic expansion, license aggregation, talent acquisition and new technical capabilities.

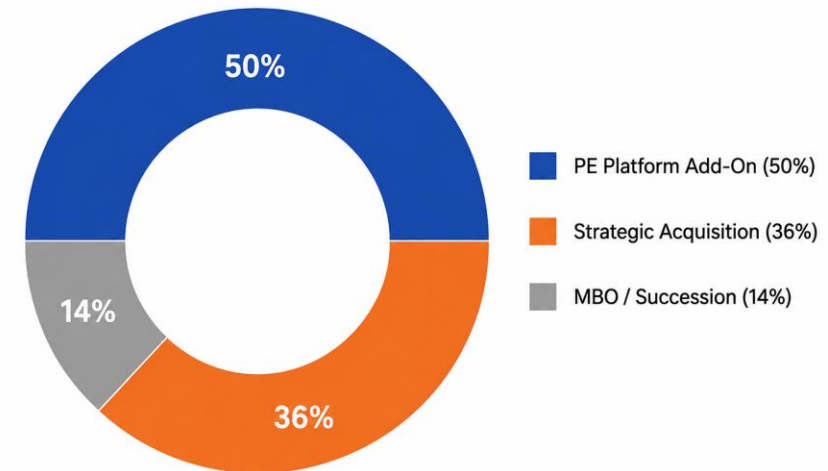
Management Buyouts

10-15% of Volume

Partner-led succession transactions, often internally financed or supported by seller notes and mezzanine debt.

- PE platforms have moved aggressively into engineering, environmental consulting, utility services and transportation design.
- Sellers are increasingly motivated by succession planning, recruiting leverage, growth capital and the ability to participate in platform upside.

Deal Type Mix (2025)

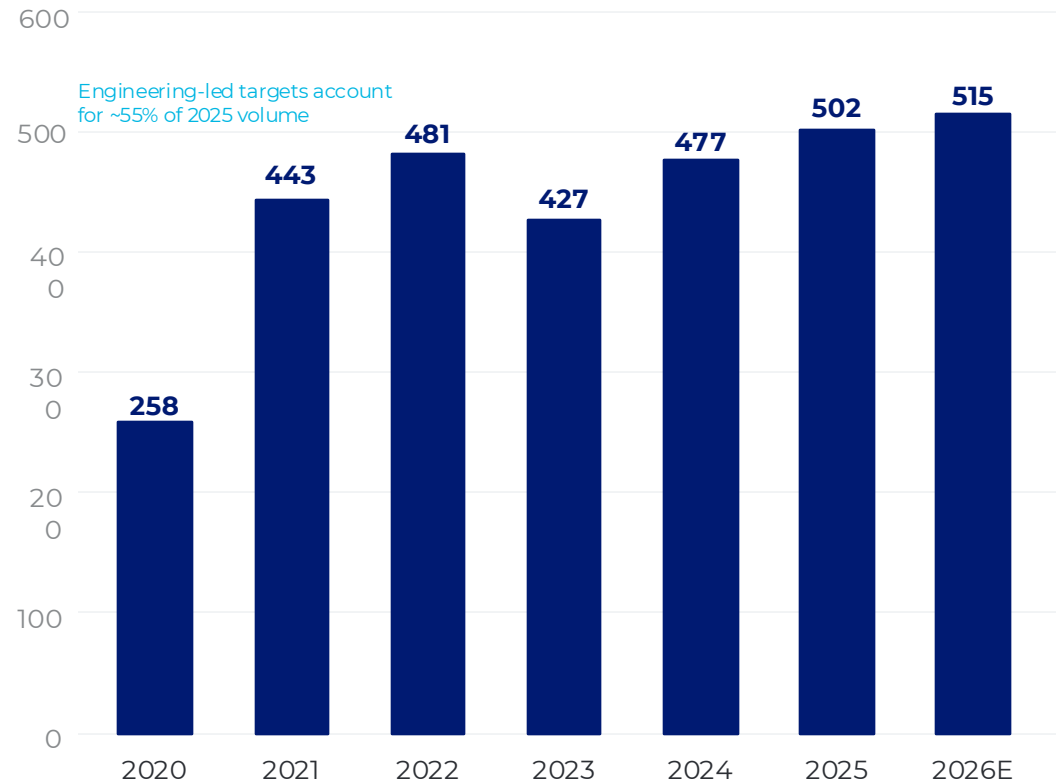


- Key buyer motivations include licensed talent, sticky utility MSAs, local DOT/municipal relationships and cross-sellable specialty services.
- Integration risk remains highest in principal-led firms where client relationships and QA standards are dependent on a small leadership group.

Source: PitchBook, Morrissey Goodale, Zweig Group, Stonemill Partners Analysis

AEC M&A Activity

AE Transaction Volume Surpassed 500 Deals in 2025 - Setting a New Historical Record



2020-2025 CAGR:

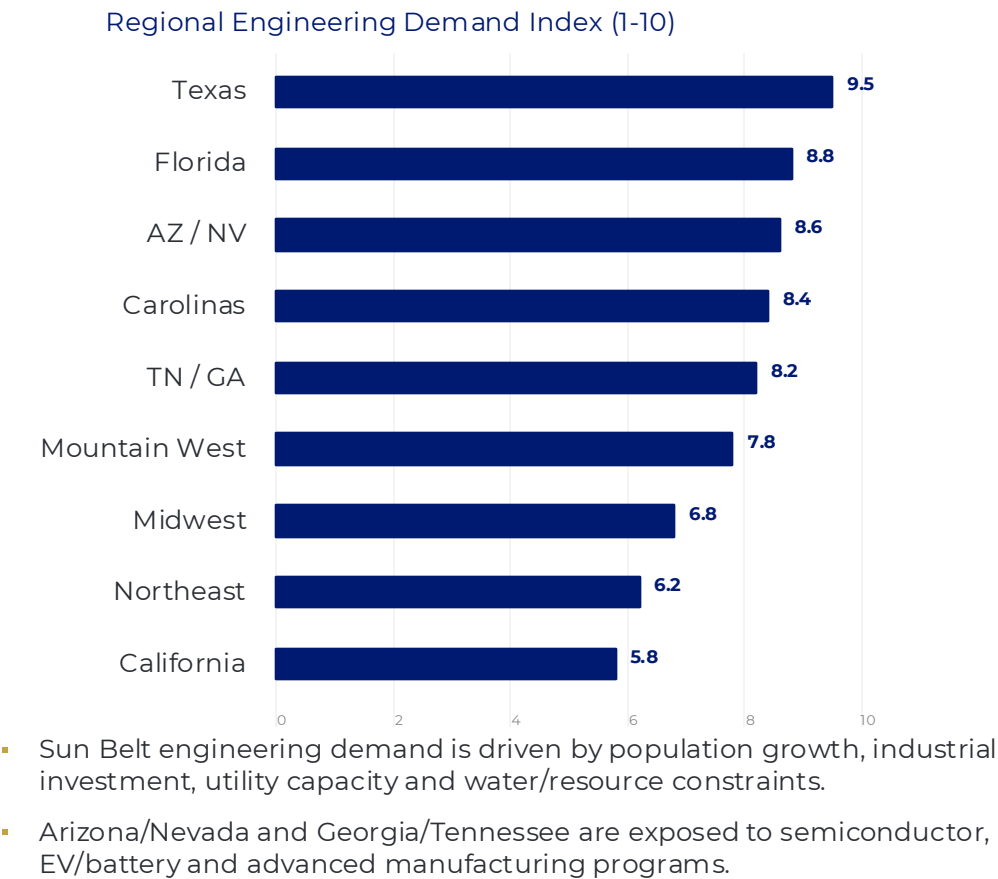
+14.2%

- AE M&A transaction volume has grown at a 14.2% CAGR from 2020 to 2025, surpassing 500 announced transactions for the first time.
- Despite elevated interest rates, deal volume has exceeded 450 transactions for five consecutive years, demonstrating industry resilience.
- 2026 is tracking to match or exceed 2025 levels, supported by engineering, environmental and utility platform add-on activity.
- The actionable target pipeline remains deep, with an estimated 3,000+ firms in the \$5M-\$50M revenue range.

Source: PitchBook, Morrissey Goodale, Zweig Group, Stonemill Partners Analysis

Regional Engineering Demand Trends

Sun Belt and Energy/Manufacturing Corridors Dominate Engineering Demand



Top 5 Markets by Engineering Demand

RANK	MARKET	INDEX	KEY DRIVERS
1	Texas	9.5	Power, industrial, data centers, transportation
2	Florida	8.8	Water, resilience, healthcare, transportation
3	Arizona / Nevada	8.6	Semiconductors, water scarcity, data centers
4	Carolinas	8.4	Manufacturing, life sciences, grid
5	Tennessee / Georgia	8.2	EV/battery, logistics, data centers

- Texas benefits from power generation/transmission, data centers, LNG/petrochemical, transportation and water infrastructure.
- Firms with Sun Belt presence plus specialized infrastructure verticals are best positioned for organic growth and premium exit positioning.

Source: U.S. Census, BEA, Dodge, CBRE/JLL, ENR, FMI, Stonemill Partners Analysis

Strategic Outlook for Engineering Firms

Four Strategic Imperatives Define Competitive Positioning Through 2026-2028

1. Sector Specialization

Concentrate expertise in high-growth verticals: power/grid, water/wastewater, transportation, environmental and mission-critical infrastructure. Specialty firms command 30-50% valuation premium over generalists.

2. Talent & Leadership Depth

Retain PE-licensed engineers, senior project managers and discipline leaders. Talent bench and succession depth are heavily diligence-weighted in current transactions.

3. Digital Delivery & AI

Deploy BIM, digital twins, automated QA/QC, model-based design and AI-enabled workflows. Technology leaders improve utilization and reduce rework.

4. M&A Readiness

Build recurring revenue, clean project accounting, contract normalization and backlog reporting. Firms with >12 months backlog and >18% EBITDA margins attract broadest buyer universe.

- Sector specialization is the primary lever for differentiation as generalist engineering margins compress.
- Geographic concentration in a single market creates cyclical risk; multi-market platforms trade at a meaningful premium to single-market operators.

- Digital tools increasingly separate scaled platforms from local operators on complex infrastructure and industrial bids.
- M&A readiness requires 18-24 months: QoE preparation, contract review, PM discipline, management succession and client concentration mitigation.

Strategic Outlook 2026-2030

Long-Term Industry Shifts Favor Specialized, Technology-Enabled, Multi-Market Engineering Platforms

Infrastructure Tailwinds

2026-2030

IJA and state/local capital programs support transportation, water, broadband and resilience demand.

AI & Data Center Buildout

2026-2035

Hyperscaler capex and AI infrastructure create sustained demand for power, civil, MEP, water and structural engineering.

Power Grid Modernization

2026-2035

Generation, transmission, distribution, interconnection and storage projects drive utility engineering capacity needs.

Advanced Manufacturing

2026-2030

Semiconductor, EV/battery, life sciences and industrial reshoring expand process, civil and electrical engineering demand.

Industry Consolidation

2026-2030

PE-backed platforms expected to capture 30%+ of mid-market engineering revenue by 2030.

- The AI/power cycle is the most significant engineering demand catalyst since the post-GFC infrastructure recovery.
- Water, transportation and environmental work provide defensive revenue floors, insulating diversified firms from commercial real estate cyclicality.
- Sustainability and resilience expertise is transitioning from a differentiator to a baseline procurement requirement for public clients and utilities.
- The premium exit window for independent mid-market engineering firms remains open but is narrowing as PE consolidation compresses the acquirable universe.

Conclusion

Engineering Industry Offers Compelling Investment Thesis - Infrastructure and Specialization Are Key

Market Opportunity

- ~\$430B addressable services market growing at 5-7% annually.
- Infrastructure and utility funding providing multi-year demand visibility.
- AI infrastructure and grid modernization increasing engineering intensity.

Value Creation Levers

- Sector specialization drives 30-50% valuation premium.
- Recurring public/utility contracts reduce cyclicalities.
- M&A platform strategy accelerates scale, recruiting and multiple expansion.

Investment Considerations

- Private mid-market valuations range from 4.5x to 10.0x EBITDA.
- Key risks: talent scarcity, utilization volatility, client concentration and project liability.
- Optimal entry: \$15-\$75M revenue, >16% EBITDA and >12 months funded backlog.

Engineering firms with power, water, transportation, environmental and mission-critical specialization represent the highest-conviction investment opportunities in the current AEC market cycle. Stonemill Partners is uniquely positioned to advise on acquisitions, divestitures, recapitalizations and capital raises across architecture, engineering and environmental services.

References & Data Sources

Key Data Sources and Methodology

Engineering & Infrastructure Metrics

- ACEC Research Institute - Engineering Business Sentiment
- ENR - Top Design Firms, Market Trends
- Dodge - Construction Starts / Momentum Index
- U.S. Census - Value of Construction Put in Place

Macroeconomic & Demographic Data

- BEA - GDP & Investment
- FRED - Interest Rates, CRE Metrics
- BLS - Employment & Wage Data
- U.S. Census - Population & Migration

Financial & M&A Data

- PitchBook - PE Activity & Deal Data
- Deltek - A&E Financial Performance Benchmarking
- Stonemill - Proprietary Transaction Data

Sector-Specific Research

- EIA / EEI - Power Demand & Utility Capex
- EPA / AWWA - Water Infrastructure Trends
- CHIPS Program Office / SIA - Advanced Manufacturing
- CBRE / JLL - Data Center and Industrial Real Estate

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