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Morrissey Goodale's M&A Year-in-Review

The definitive 2023 report of M&A activity, focusing on key trends and insights of deal-making across the AE and environmental industry for the year.

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Morrissey Goodale's 2023 M&A Year-in-Review

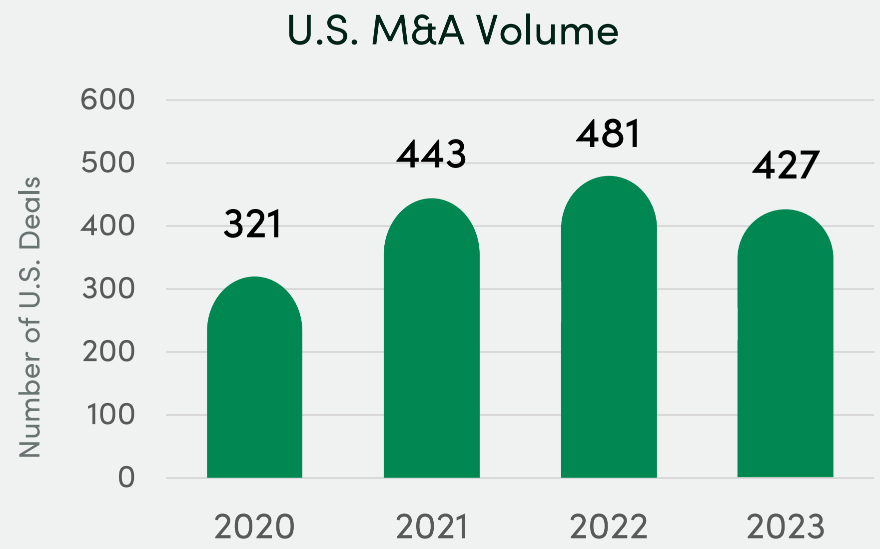
Executive Summary

In 2023, Morrissey Goodale tracked 427 U.S. deals, down 11.2% from the record 481 transactions in 2022.

- 300 unique buyers and investors from ten different countries combined to close deals.
- The median acquirer reported revenue of $96 million, while the median seller reported revenue of $3 million.
- 16 *ENR* Top 500 Design firms sold or recapitalized.
- Employee-owned buyers drove the largest share of deals, claiming 53% of all domestic acquisitions, followed by private equity-backed buyers at 39%, and publicly traded buyers at 8%.
- Firms with proven records in the power, transportation, and water markets saw the most interest from industry buyers and investors.
- Florida, Texas, and California witnessed the most consolidation, in line with trends observed over the past few years.

How 2023 Stacks Up

In 2023, industry dealmakers forged ahead despite sharply rising interest rates and widespread predictions of recession, announcing a total of 427 U.S. acquisitions. Despite a decrease of 11.2% from the record 481 transactions announced in 2022, overall market activity remained significantly above long-term historical levels. Notably, 2023 marked the third consecutive year – and only the third year in history – where U.S. deal volume surpassed 400 transactions.



The slight pullback in M&A activity throughout 2023 was shaped by a range of factors, including inflation, and the Federal Reserve's interest rate hikes aimed at curbing escalated costs. The cumulative effect of these trends resulted in U.S. deals falling to a three-year low. However, with the Federal Reserve pausing interest rate hikes mid-year and sustained economic activity across a range of market sectors, both the U.S. economy and industry deal activity showed surprising resilience in the second half of the year.

In Q3, as GDP grew faster than expected, discussion of an anticipated recession started giving way to talk of a soft landing. The construction sector's labor market achieved record growth in July, fueled by significant government investments like the Infrastructure Investment and Jobs Act, CHIPS Act, and Inflation Reduction Act.

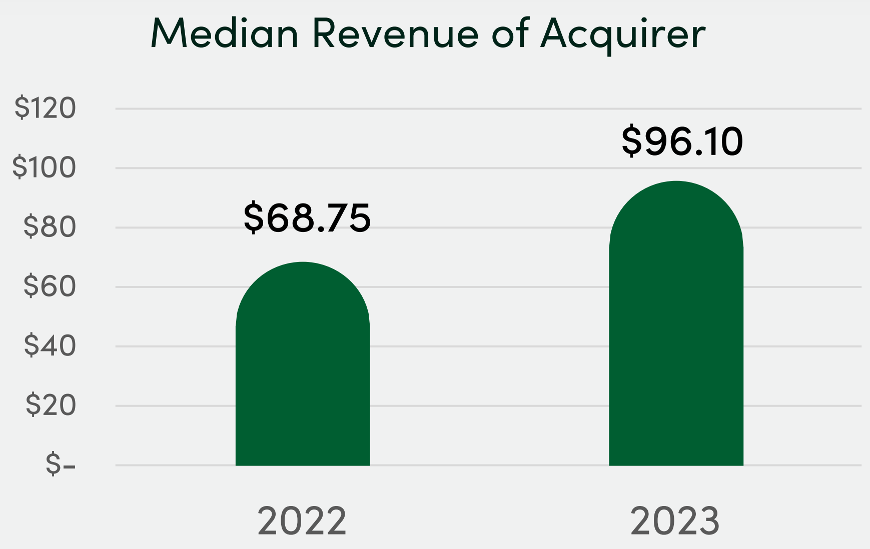
Furthermore, the persistent demand for engineering, design, and construction services, coupled with high backlogs, put pressure on an already stretched workforce. This dynamic prompted many firms to respond by increasing M&A activities, resulting in a second half that saw 197 deals announced, underscoring industry dealmakers' ability to adapt to fluctuating economic conditions.

Large Firms Shape Industry Consolidation

Throughout 2023, consolidation was driven by a wide range of participants, with 300 unique buyers and investors completing deals. Acquirers varied widely, both in terms of size—with reported revenue ranging from $60 billion to $1 million—and geographic footprint, spanning 44 U.S. states and 10 countries.

As the year progressed, a noteworthy shift took place, with larger firms playing a more dominant role in driving consolidation. This was reflected by the increase in the median revenue of buyers, which escalated from $69 million in 2022 to $96 million in 2023. This change highlights the competitive advantage larger firms hold when making acquisitions.

The ability to leverage greater capital resources and established market positions allowed large firms to push ahead with acquisitions in the face of rising debt costs and make more appealing offers to sellers relative to smaller, less well-capitalized buyers.



ENR's Most Prolific Buyers

Firms featured in the Engineering News-Record *(ENR)* Top 500 list once again demonstrated a strong appetite for acquisitions during the past year, dominating the list of the industry's most prolific buyers. 107 firms from the *ENR* Top 500 list made acquisitions in 2023, with more than a third of these companies completing multiple deals. Collectively, *ENR* Top 500 buyers closed on 189 transactions in the calendar year, accounting for 44% of the total deal activity in the U.S., an increase from the previous year when they were involved in 41% of all deals.

The following are the most prolific buyers in 2023:

Bowman

Bowman Consulting Group
ENR #87
12 Acquisitions

Trilon

Trilon Group
10 Acquisitions

UES

Universal Engineering Sciences
ENR #36
Seven Acquisitions

RMA COMPANIES

RMA Companies
ENR #146
Seven Acquisitions

IMEG

IMEG
ENR #57
Six Acquisitions

SAM

SAM Companies
ENR #88
Six Acquisitions

Most Prolific Buyers - Cont.

Verdantas
ENR #149
Five Acquisitions

NV5 Global
ENR #22
Five Acquisitions

Salas O'Brien
ENR #54
Five Acquisitions

Atwell, LLC
ENR #74
Five Acquisitions

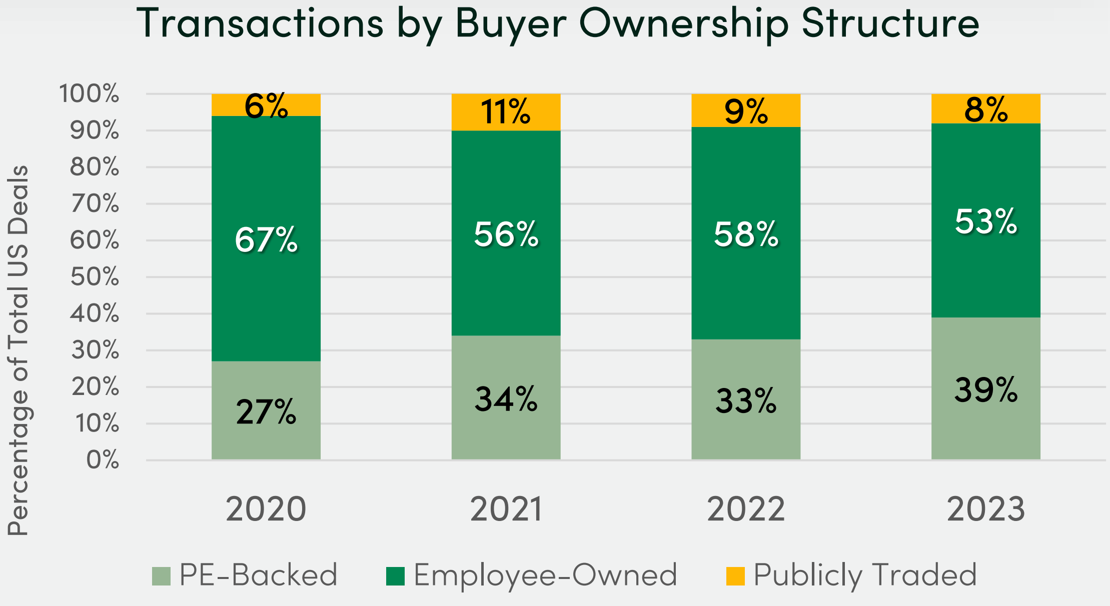
Employee-Owned and Publicly Traded Buyers Remain Active, but Their Influence Continues to Wane

In 2023, most deals were led by employee-owned buyers, who secured 53% of all domestic acquisitions. Following closely were private equity-backed buyers, accounting for 39%, while publicly traded buyers held the smallest share at 8%.

While private equity (PE) and PE-backed firms are grabbing headlines, the traditionally dominant employee-owned and publicly traded firms still maintain a strong deal-making presence and still closed on roughly the same number of transactions in 2023 as they have in recent years. That said, while employee-owned and publicly traded AE firms accounted for nearly 90% all acquisitions in the industry less than a decade ago, that percentage of transactions has fallen to 61% of all deals annually given the strong rise in the overall number of deals.

The 228 deals completed by employee-owned buyers last year is nearly identical to the 224 deals completed by employee-owned buyers in 2019, even amidst a 31% increase in overall deal activity between these periods. As a proportion of all transactions, the 53% of deals completed by employee-owned buyers last year marks the lowest percentage on record, which has been in steady decline since Morrissey Goodale began tracking industry data.

As the AE industry moves forward, these patterns suggest a pivotal reconfiguration of the M&A ecosystem. Traditional powerhouses (employee-owned firms) are finding their influence diluted as new players emerge, reshaping the strategic landscape.

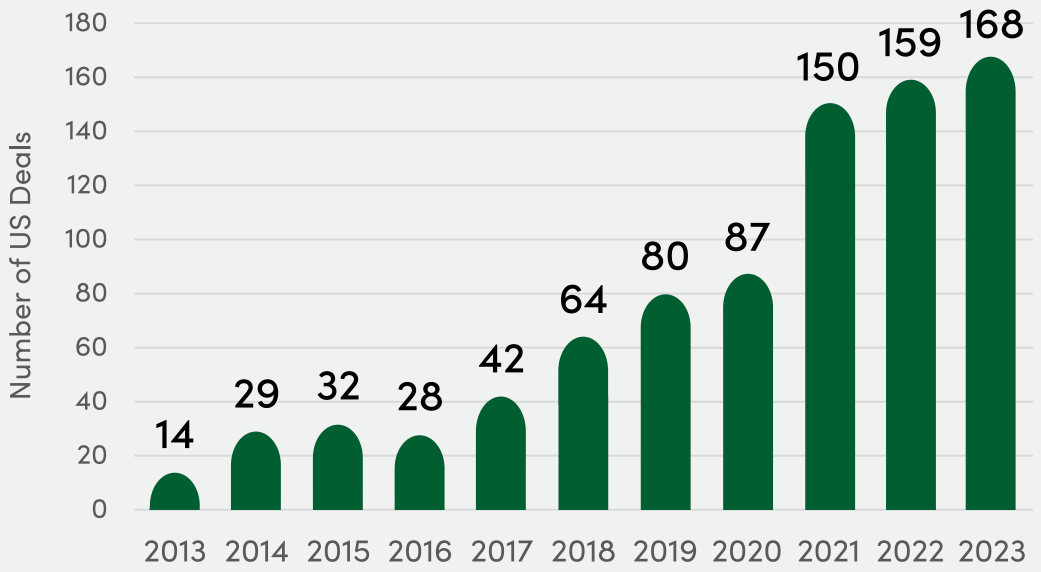


Private Equity-Backed Buyers Continue to Move the Market

Over the past decade, the industry has witnessed the ascent of PE firms as a dominant force in the market, a trend that persisted in 2023. Fueled by historically favorable market conditions and record levels of investment capital, PE's aggressive approach to acquisitions has driven a record number of transactions in nine of the past ten years.

PE's influence was more pronounced than ever with 168 U.S. deals comprising 39% of all industry transactions in 2023. This marked a notable increase from 33% in 2022 and a dramatic jump from a decade ago when PE deals made up just 5% of the industry's transactions. The rise of this trend speaks to the AE industry's growing appeal to private equity investors. It also reflects a changing perspective among AE firm owners, who increasingly view PE firms as potential partners in the execution of their strategic plans.

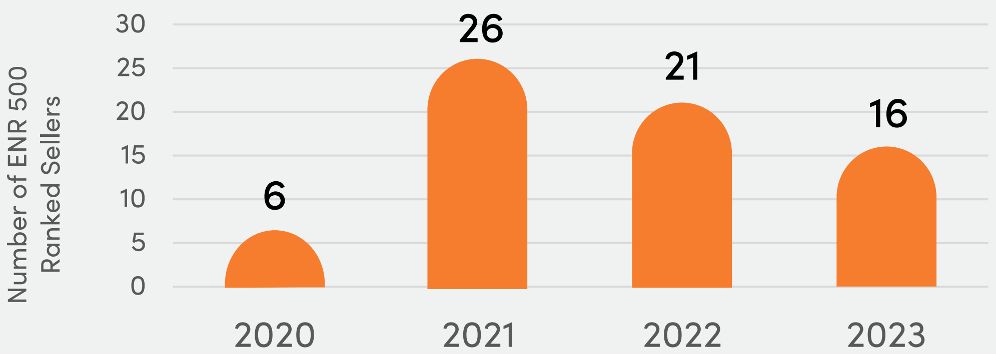
PE-Backed Deals since 2013



"The Great Recapitalization" of the *ENR* 500 Continues

With more firms evaluating the benefits of raising outside equity to help address ownership transition questions and accelerate growth, private equity ownership has become an increasingly viable choice for many of the industry's largest and fastest-growing firms.

Deals Involving *ENR* 500 Sellers



Since the start of 2021, the industry has experienced unprecedented deal activity among its largest players with 63 *ENR* Top 500 Design firms announcing sales or recapitalization. 16 such transactions occurred in 2023, 15 of which involved private equity or private equity-backed buyers, accounting for more than $3.5 billion of revenue acquired.

2023 Deals Involving *ENR* 500 Sellers

Date	Acquirer	Seller	Seller *ENR* 500 Ranking
1/9/23	OceanSound Partners	Gannett Fleming	29
1/12/23	Verdantas	Borton-Lawson Engineering	466*
1/23/23	RINA	Patrick Engineering	250
2/1/23	Littlejohn & Co.	Ardurra Group	89
2/8/23	Oaktree Capital Management	Enercon Services	82
3/9/23	Verdantas	Leighton Group	413
4/13/23	H.I.G. Capital	Tower Engineering Professionals	122
4/20/23	Palm Beach Capital	Pape-Dawson Engineers	112
5/30/23	Trilon Group	Fehr Graham	471
6/19/23	TranSystems	Whitney Bailey Cox & Magnani	433
8/7/2023	Neuberger Berman	ENTRUST Solutions Group	45
9/18/2023	Trilon Group	Horrocks Engineers	135
9/19/2023	Lindsay Goldberg	Kleinfelder	42
9/20/2023	GHK Capital Partners LP	WSB & Associates	178
10/17/2023	Providence Equity Partners	Populous Group	104
10/26/2023	TowerBrook Capital Partners	Langan	46

** 2022 ENR 500 Ranking*

This shift is influenced by various factors: the necessity for substantial capital to fuel expansion and innovation, the competitive nature of the AE industry, and upcoming generational leadership transitions. Selling offers owners and leaders of these firms both an avenue for strategic growth and a safety net against economic uncertainties and market fluctuations. In essence, the increase in *ENR* 500 firms choosing to sell underscores the industry's evolving narrative. In an age marked by rapid change and mounting uncertainties, even industry giants are not impervious. They, too, seek strategic alliances as means to future-proof their operations.

The biggest transactions of 2023 included the acquisition of **Atlas Technical Consultants** (*ENR*'s #16 Top Professional Services Firm) by GI Partners; the recapitalization of **Gannett Fleming** (*ENR* #26) by OceanSound Partners; the acquisition of **Kleinfelder** (*ENR* #42) by Lindsay Goldberg; and the investment in **Langan** (*ENR* #46) by TowerBrook Capital Partners.

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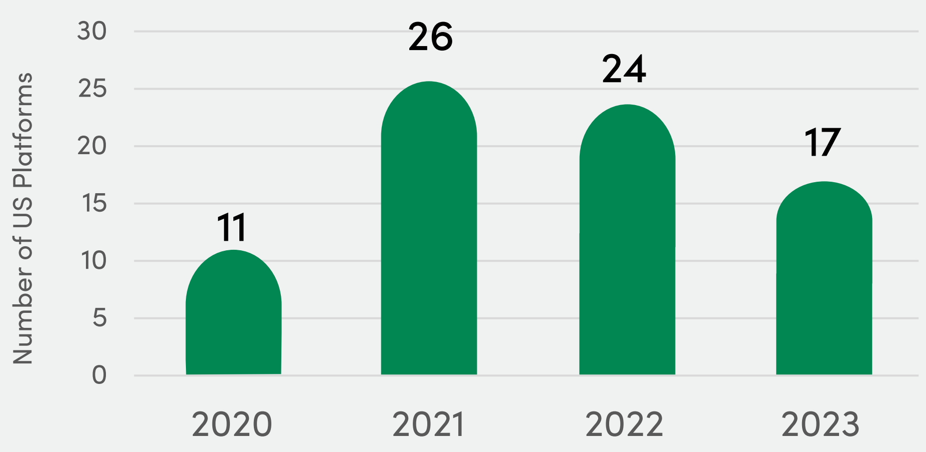
New PE-Backed Platforms in the AE Industry



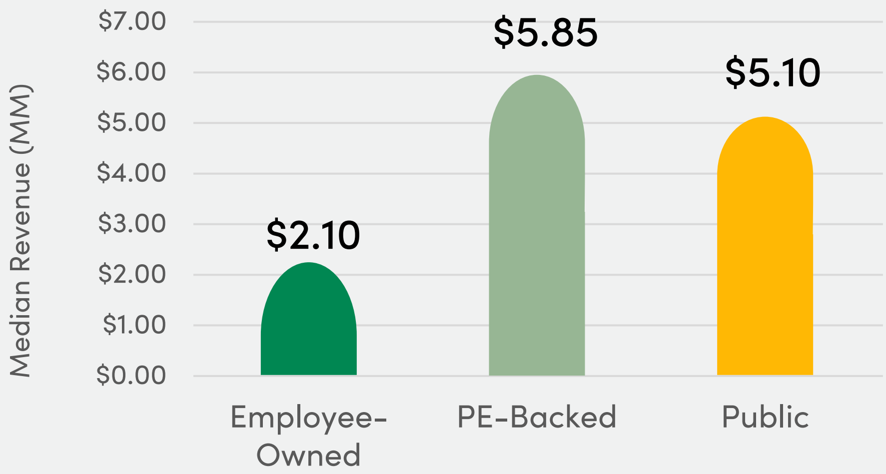
Currently, the industry has 112 active private equity-backed platforms, more than double the number from five years ago. Together, these platforms represent the interests of 88 different private equity firms. Combined, private equity-backed companies account for investments in the industry totaling over $60 billion in annual revenue and include 22 firms from the *ENR* Top 100 Design Firms list.

Buyers See Opportunity in Smaller Add-On Acquisitions

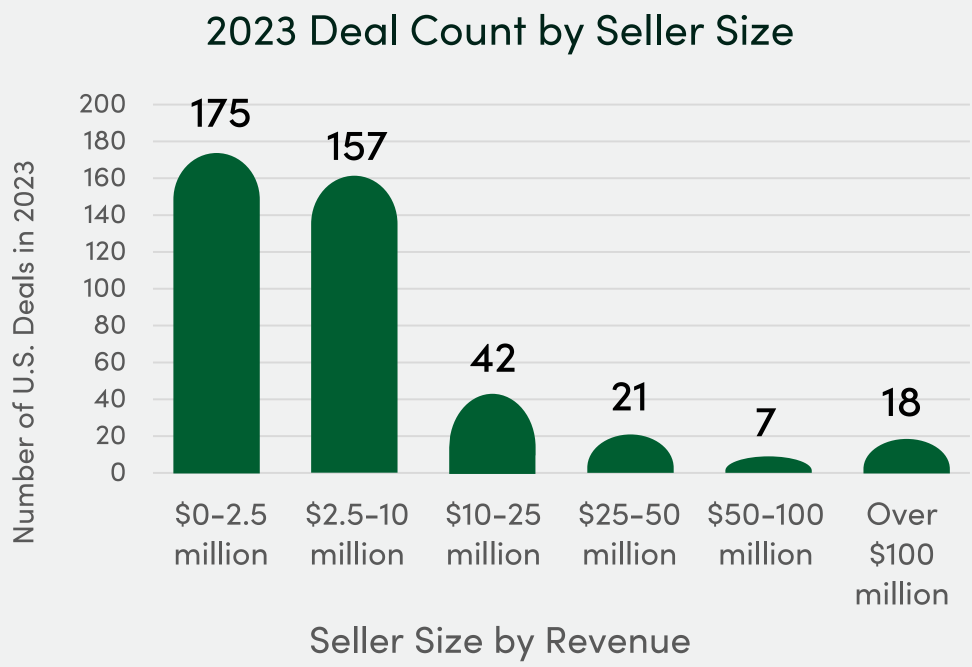
In 2023, the M&A landscape was increasingly characterized by a shift towards smaller add-on acquisitions. This trend, observed among buyers of all types and sizes, reflects a response to a dynamic and competitive marketplace. For many buyers, smaller acquisitions serve as a strategic entry into new markets that are often challenging to penetrate due to stiff competition and high valuations associated with larger deals. Additionally, the acute demand for skilled professionals in a tight labor market has made the "acquihire" approach – acquiring smaller companies primarily for their talent – an increasingly attractive strategy for industry leaders.

The data from 2023 supports this shift. The median seller in the industry reported revenue of approximately $3 million and a headcount of 20, marking a slight decrease from the previous year. Further, over two-thirds of all U.S. deals in 2023 involved sellers with revenue under $5 million, and 79% involved sellers with less than $10 million in revenue. This trend highlights the fragmented nature of the AE industry, which is predominantly made up of small to medium-sized businesses.

Median Revenue of Acquired Firms by Ownership Structure



The inclination towards smaller acquisitions in 2023 is driven by several factors. Larger transactions are often more vulnerable to financing costs and market fluctuations, whereas smaller deals, being less capital-intensive, are less affected by high-interest rates and external market pressures. Additionally, smaller acquisitions allow strategic buyers to swiftly expand into new markets or specialized service areas, leveraging established client relationships and expertise of the acquired firm.



This strategy is particularly effective for building capabilities or entering regions where establishing a new presence from scratch would be time-consuming and resource intensive.

Thus, smaller acquisitions allow firms to selectively expand their expertise and market reach without the substantial financial commitments and complexities associated with larger deals. This approach not only mitigates financial risks but also facilitates smoother integration of new capabilities and services, ensuring that firms remain agile and competitive amidst a rapidly evolving but uncertain market landscape.

Aging Infrastructure and Ongoing Energy Transition Fuel M&A Focus on Key Sectors

Consolidation was consistently strong across all markets in 2023, but engineering and environmental firms with records in transportation, water, and/or power saw the most interest from industry acquirers and investors. With much of the current government funding and incentives focused on roads, bridges, water, and wastewater, as well as infrastructure to support energy transition efforts, the landscape for firms seeking expansion in these areas is rich with opportunities.

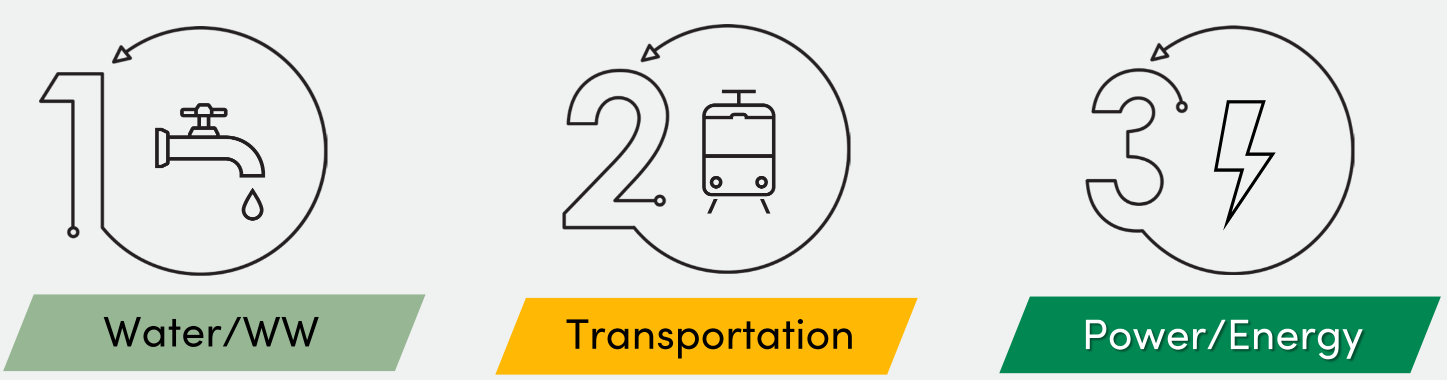
Demand for firms providing solutions to the water and wastewater markets saw the most year-over-year growth, accounting for 27% of all deals throughout 2023, compared to 21% last year. Driving this demand are increasing concerns about water security, megadrought in the Western U.S., and the urgent need to upgrade aging water infrastructure.

Selling firms providing services to the transportation market (roads, bridges, airports, and transit) represented a quarter of all deals, above the historical average. The latest ACEC Engineering Business Sentiment Report showed that the level of optimism for the roads and bridges market is higher than any other industry sector. Rapid urbanization, governmental investments in infrastructure modernization, and the push toward sustainable transportation solutions are fueling the demand for acquisitions of engineering firms serving this market.

Finally, driven by the global shift towards renewable energy sources, the need for modernizing aging power infrastructures, and the growing demand for energy-efficient solutions, deals involving sellers serving the power market increased to 15% of all U.S. transactions in 2023, compared to 12% in 2022.

The ongoing need to expand, improve, and maintain public infrastructure pushes growth in these critical sectors, driving continued interest from buyers and investors. Consequently, firms operating in these sectors are positioned to leverage these trends to negotiate favorable terms in potential acquisitions, capitalizing on the increasing market demand and governmental support for infrastructure and energy transition projects.

Fastest Growing Seller Markets 2023



Sunbelt and Coastlines Attract the Most Interest in U.S. Deal-Making

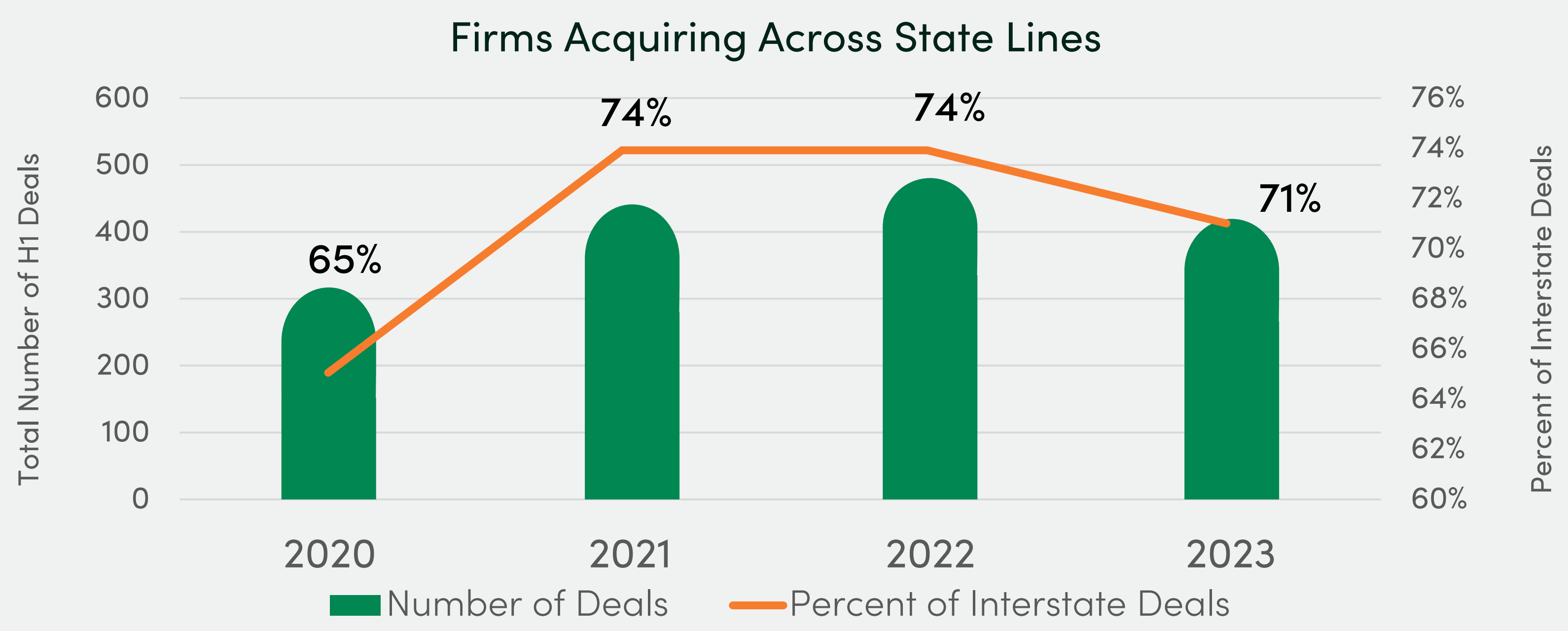
For many buyers, the strategic imperative of entering new geographic markets remains a primary driver behind M&A decisions. In line with trends observed over the past few years, states on both coasts, the Sunbelt region, and particularly Florida, Texas, and California, remain the most coveted by industry buyers and investors.

Florida, with its rapid growth, attractive population dynamics, and favorable business climate led the nation with 50 transactions in 2023. Though it saw a slight dip from 54 deals during the same period in 2022, its position as the top state for deal-making stays unchanged. Texas— benefiting from lower taxes, lower cost of living, and robust infrastructure spending— and California— bolstered by the state's large economy— followed as the second and third most active states for dealmaking with 48 and 38 deals in 2023, respectively.

Each of these three states stands to benefit from long-term needs for engineering, design, and environmental services. Together, this group accounted for 32% of all U.S. deals throughout the year. Other notable states demonstrating robust M&A activity in 2023 include New York with 25 deals, Pennsylvania with 24 deals, and Colorado with 20 deals.

Elevated Buyer Confidence Fuels Interstate Deal Activity

The interstate deal activity index, which reflects the percentage of deals conducted across state borders, serves as a barometer for buyer confidence. A score near or below 50% suggests industry recession and cautious buyers, while figures above 60% indicate a thriving industry with buyers pursuing more aggressive investments outside of their home states. In 2023, interstate deals accounted for 71.2% of all transactions, a slight dip from the record 73.6% recorded last year, but well above historical levels. This spike in recent years reflects the industry's growth due to high demand for AE and environmental services, buyer optimism, and ample acquisition capital being put to work.



Market Outlook for 2024

As we look ahead to 2024, the outlook for M&A activity in the industry calls for sustained momentum from the prior year. With strong demand from clients and the need for staff at all levels, the industry is poised to continue its consolidation trend. Large firms and those backed by private equity are expected to remain at the forefront of this consolidation, capitalizing on their financial robustness to make strategic acquisitions.

We anticipate that smaller deals, or those less than $50 million in transaction value, will continue to draw buyers searching to fill specific strategic needs. These transactions offer a viable path for companies to enter new sectors and acquire talent, especially in the transportation, water, and power markets. These markets are likely to stay in the spotlight for M&A activity, offering ripe opportunities for long-term growth and expansion.

Additionally, the need for innovation, particularly the adoption of artificial intelligence (AI), will continue to push investors to look for new and potentially different opportunities. This technology is poised to help firms address operational challenges like labor shortages and streamline costs, thereby bolstering market competitiveness. The overall picture for 2024, therefore, is one of opportunity, with firms that are nimble and innovative set to benefit the most from the evolving M&A dynamics.

About Morrissey Goodale

Morrissey Goodale is the leading management consulting and research firm exclusively serving the architecture, engineering, and environmental consulting industries. We help firm leaders plan their futures, grow their firms, and strengthen their organizations through our consulting services, industry research, and events.

Our specialized, full-service management consulting and research services include strategic business planning, leadership training and development, mergers and acquisitions advisory, valuation and ownership transition, market research, and marketing and business development consulting.

To learn about the more than 200 M&A transactions that Morrissey Goodale has facilitated since 2006, click the button below.

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Jon Escobar

PRINCIPAL

Jon Escobar is a Principal who specializes in M&A, business planning, and valuation.

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