EFCG

2025 CFO Conference

Session 4C: Valuations for M&A vs. Internal Ownership Transitions

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Thursday, April 10, 2025

Network:Ritz-Carlton_Conference
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Today's Conference Agenda: Thursday, April 10th

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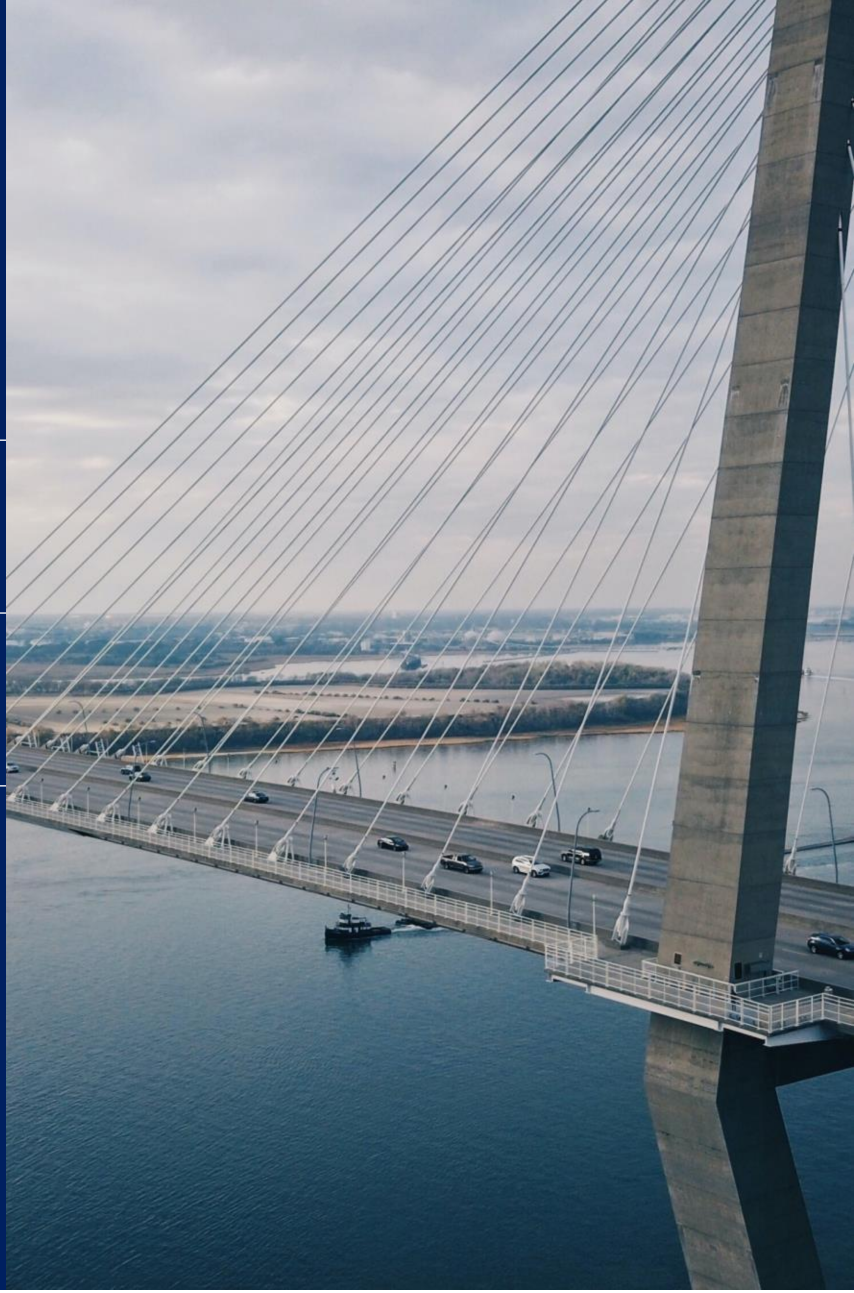
	9:00 am – 10:30 am	**Session 1:** EFCG AEC Industry Overview
	10:30 am – 11:00 am	**Morning Coffee Social**
	11:00 am – 11:45 am	**Session 2:** State of the Industry Through the Lens of Influential CFOs
	11:45 am – 12:00 pm	**CFO of the Year Announcement**
	12:00 pm – 1:00 pm	**Lunch**
	1:00 pm – 1:45 pm	**Session 3:** The Tech Interplay: Aligning a Firm's Technology Strategy With its Financial Goals
This Session	2:00 pm – 2:45 pm	**Session 4:** Breakout Sessions 4C: Valuations for M&A vs. Internal Ownership Transitions
	3:00 pm – 3:45 pm	**Session 5:** The Balancing Act: Evolving Growth vs. Profit Strategies
	4:00 pm – 5:00 pm	**Session 6:** CFO Lessons Learned & the Day's Closing Remarks
	5:00 pm – 6:30 pm	**Free Time to Enjoy the Hotel's Amenities**
	6:30 pm – 8:30 pm	**Evening Networking Reception**

Agenda



Today's Presenters: Emily Shaw & Vishal Menon

Emily Shaw
Senior Vice President
Mergers & Acquisitions

Experience

Senior Vice President
Mergers & Acquisitions
EFCG

Director, FP&A
Vail Resorts, Inc.

Associate, Investment Bank
Goldman Sachs & Co.

Education

B.A. History Cum Laude
Williams College

Vishal Menon
Vice President
Strategy & Corporate Finance

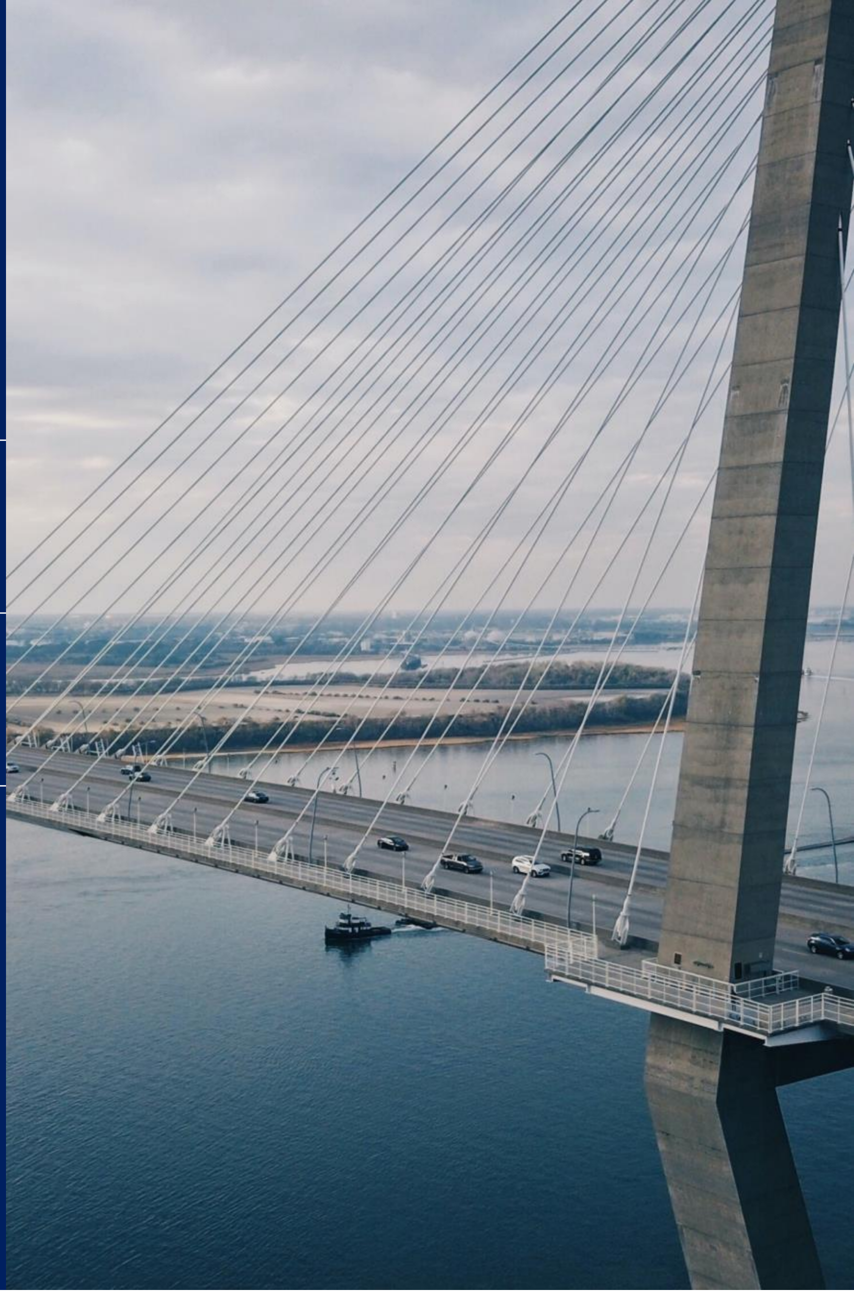
Experience

Vice President
Consulting – Strategy & Corporate Finance
EFCG

Education

B.S with Honors
Global Business & Finance
Georgetown University

Agenda



Importance of Valuations

Valuations are tied to many strategic decisions that AEC firms make. Internally, valuation plays a critical role for the management of the company's balance sheet, and for its shareholders; externally, it determines whether or not a proposed transaction is attractive

Internal

Impact on the Company

- Determines the price at which the company sells shares
  → Impacts the amount of money the company brings in (to fund its operations and growth)
- Determines the price at which the company repurchases those shares
  → Impacts the level of capital the firm must have available / afford buyback obligations
- Affects the financial impact of making an acquisition

Impact on the Shareholder

- Determines the price at which employees purchase shares
  → Impacts the number of shares that a current or new shareholder buys
- Determines the price at which retiring employees sell shares
  → Impacts level of wealth accumulation

External

Impact on the Company

- Determines the price at which the company sells shares *to a third party*
  → Adjusts the share price accordingly; determines the amount owed to Shareholders
- Affects the financial impact of selling the business

Valuation Methodologies

There are four primary methodologies to valuations in the AEC Industry

Internal Formula

Internal formulas often use company financials from its Balance Sheet and Income Statement (e.g. book value + adjusted earnings)

Discounted Cash Flow (DCF) Analysis

DCF Analysis involves forecasting a company's future cash flows and then discounting them back to their present value using a discount rate

Public Market Comps

Public Market Comps analyzes the value of a company by comparing it to the performance of publicly-traded firms within the same industry

Private Market (M&A) Multiples

Private Market (M&A) Multiples uses private M&A transaction data (e.g. valuation multiples of Adjusted EBITDA) of comparable firms that were sold in the market

Typically calculated by the firm

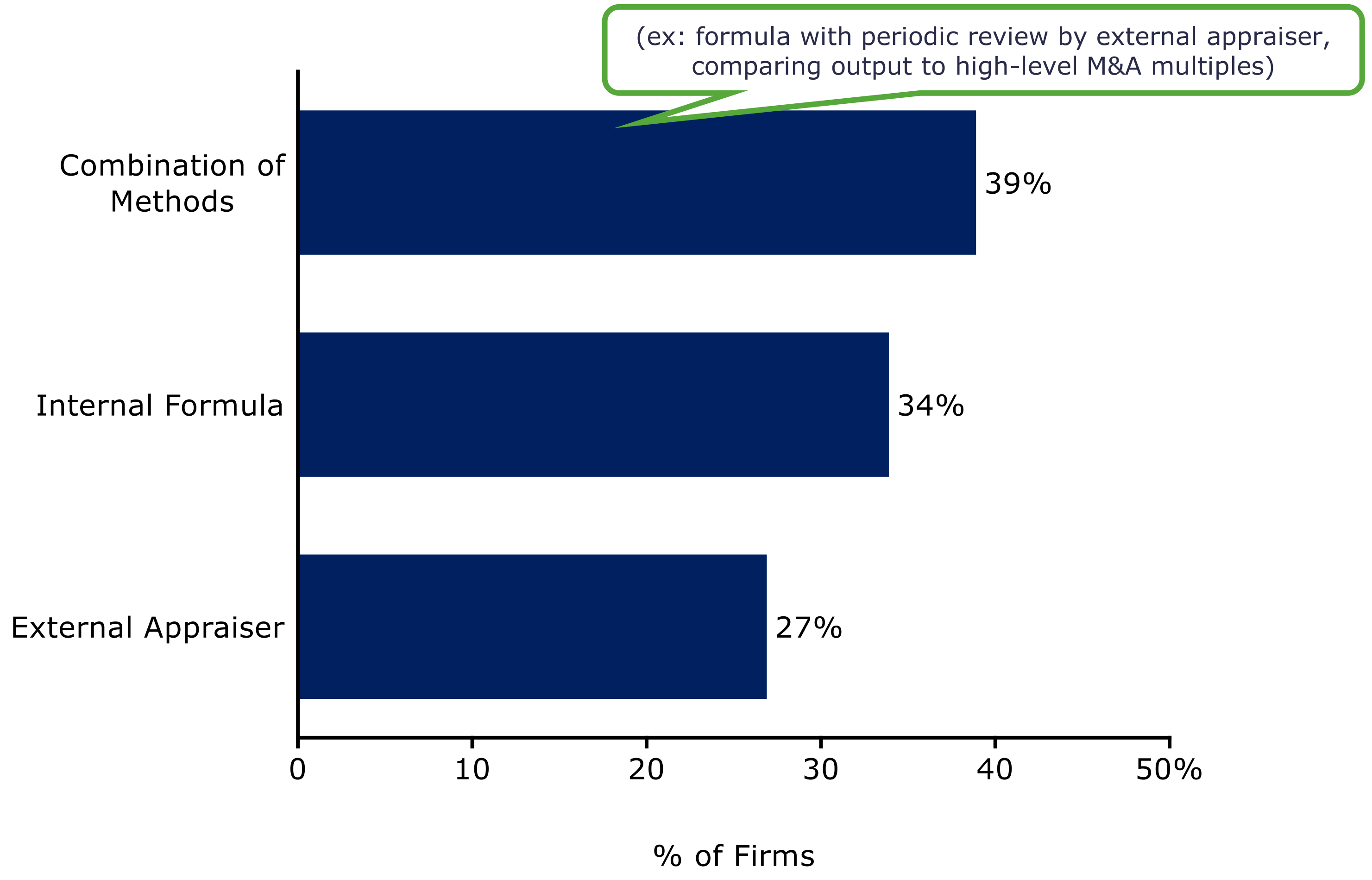
Typically done by an external appraiser to determine "Fair Market Value" of the company

Internal Valuation Considerations

For Internal Ownership Transitions

What Approaches do AEC Firms Use?

Across the industry, using a combination of valuation methods is most common, followed by an internal formula and using an external appraiser.



For the firms that use an internal formula, CFOs believe the most common reasons their formula has endured are because:

1. Shareholders like that they can easily calculate the value
2. Shareholders are accustomed to it because it has been in place for a long time

Over the past 5-7 years, however, there has been an uptick in firms shifting to an external appraiser!

Source: 2024 EFCG CFO Conference

EFCG's Valuation Methodology for Internal Ownership Transition

Under EFCG's valuation methodology, there are four primary drivers of company value. Our goal is to reflect Fair Market Value, which is the price a theoretical buyer would pay for the company. This is the most accurate indication of value!

Private Market (M&A) Multiples

Private Market (M&A) Multiples uses private M&A transaction data (e.g. valuation multiples of Adjusted EBITDA) of comparable firms that were sold in the market

1 Earnings

Profits and profit margins over time. These are adjusted to remove the impact of non-recurring events. Adjusted EBITDA is the most widely used earnings metric.

Driven by the firm

2 Net Debt / Net Cash

The difference between the company's Debt (and Debt equivalents) and Cash (and Cash equivalents). This has a dollar-for-dollar impact on the valuation.

Driven by the firm

3 Transaction Multiples

The multiples of Adjusted EBITDA which similarly sized AEC firms were bought for in the private market. The multiple a firm commands is typically correlated to its size.

Driven by the market

4 Peer Benchmarking

Financial and operational performance versus key competitors in the AEC industry to gauge how competitive and attractive the firm may be to a theoretical buyer.

Driven by the firm and the market

EFCG's Valuation Methodology for Internal Ownership Transition

EFCG

Internal valuations are typically, although not always, lower than external or M&A valuations. Among other things, this is driven by:

Minority Interest Discount

Discount applied to reflect the fact that a Minority position (i.e. one that does not have enough shares to control the decisions/direction of the business) should be valued lower than that of a Majority / Controlling Interest position

Factors that inform the most appropriate Minority Interest Discount to use include:

- Distribution of stock across the firm (are shares widely held across employees or tightly held among leaders?)
- Direct Employee Ownership vs ESOP

Illiquidity Discount

Discount applied to reflect the fact that, as a privately-owned firm, shares in the company are less liquid than other assets (ex: publicly traded company shares) since they cannot be readily bought or sold in an open market or exchange

Factors that inform the most appropriate Illiquidity Discount to use include:

- Number of Buy/Sell Windows the company offers in a given year
- Terms for voluntary sale of stock by employees (ex: financial hardship)

In addition, these two discounts also enable shares to be more affordable for employees!

The “Valuation Conundrum”

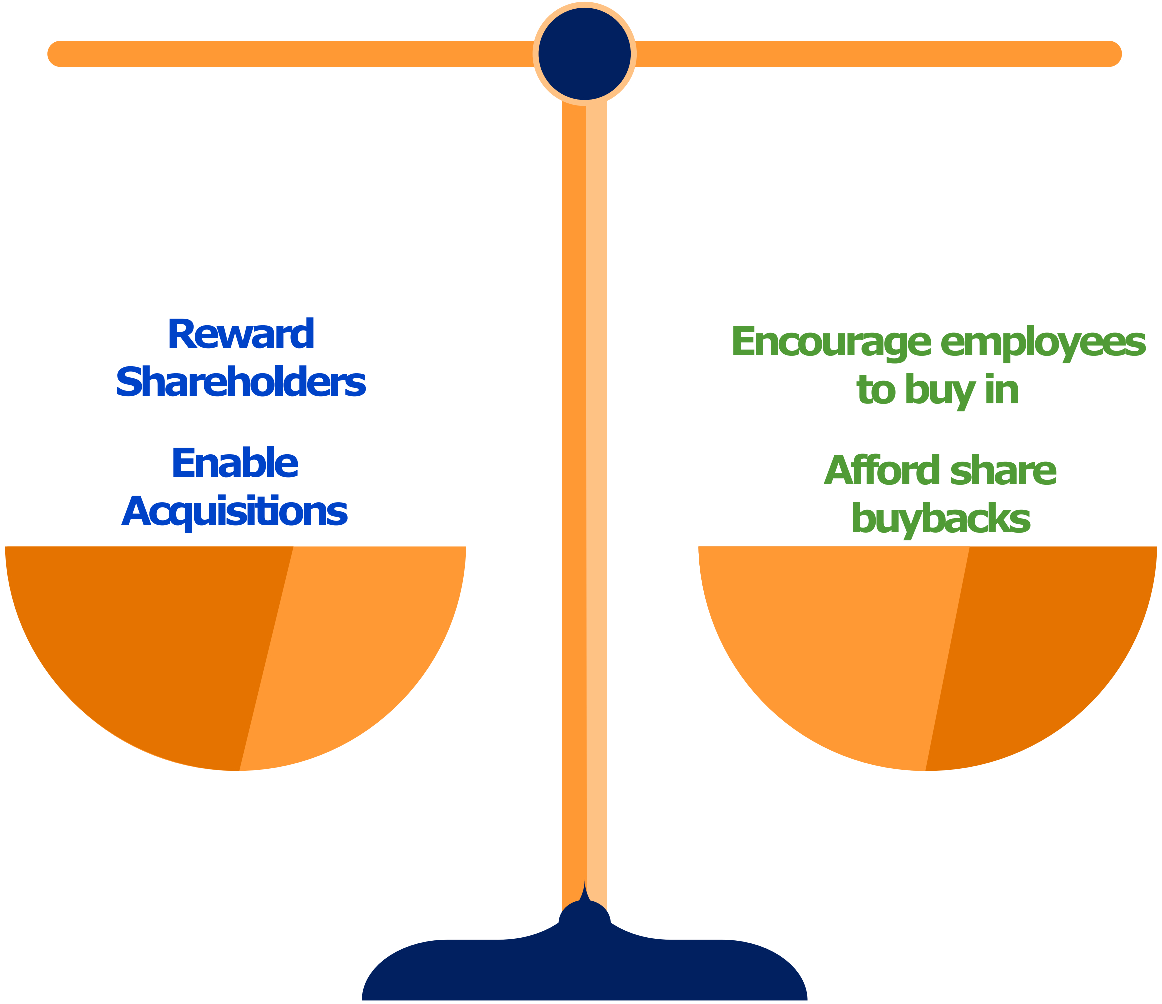
Ultimately, employee-owned firms have to balance seemingly conflicting priorities when doing their internal valuations – this is what we call the “Valuation Conundrum”

Internal valuations should be **low enough** to:

- Encourage employees to buy into the company
- Buy back shares of retiring owners / fund repurchase obligations

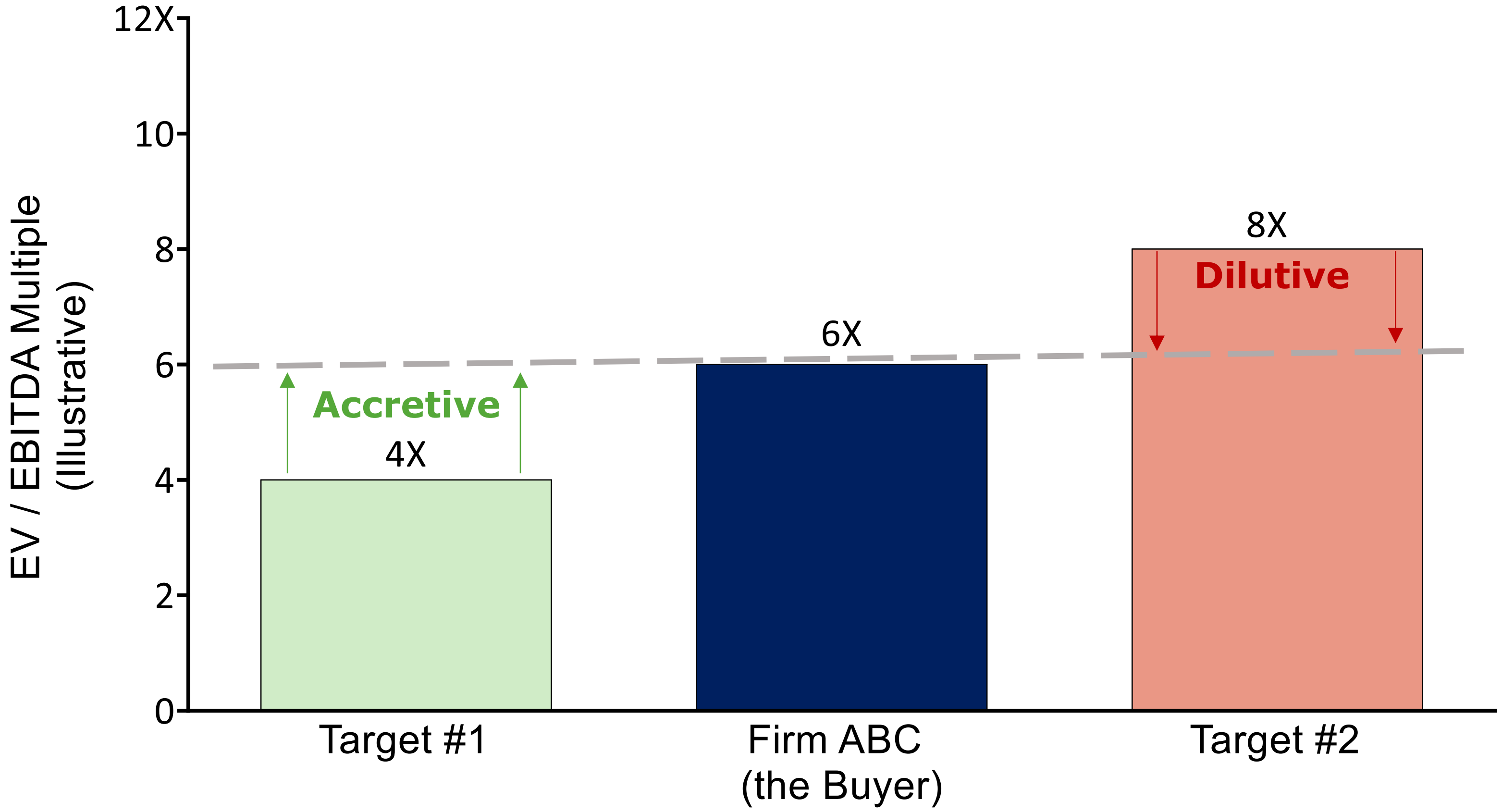
…BUT they should also be **high enough** to:

- Reward shareholders
- Enable acquisitions (and preserve / enhance the financial value of them)



Value Creation vs. Value Destruction in a Transaction

Buyers often search for “multiple arbitrage” (ex: Firm ABC acquiring Target #1). If the buyer values itself too low compared to the broader market, however, it can restrict its ability to make acquisitions (as it risks destroying value of the acquired firm – ex: Firm ABC acquiring Target #2).



External Valuation Considerations

For M&A

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Categories that Influence External Valuation

Each of these buckets informs the valuation a buyer ascribes to a target company; External valuation can therefore appear to be more of a "black box" as buyers weight qualitative factors differently

Company						Macro
Firm Profile	Market	Services	Geography	Clients (Private/Public; New Build vs. existing asset)	Prime / Sub Split; Set-aside designation(s)	Broader market sentiment
Financial Profile	Scale (Gross & Net Revenue)	Growth (historically and forward looking via Backlog)	Margins (Gross, Operating, EBITDA)	KPIs (Multiplier, Utilization, Concentration, Retention)	CapEx requirements / Free Cash Flow profile	Federal Gov't Priorities
Leadership & Culture	Leadership Succession	Culture	Client Relationships	Strategic Vision & Growth Orientation	Processes / Procedures	Investment Mandate

What is Driving Multiples Upward?

In addition to company-specific factors, M&A multiples are influenced by both industry and macro trends, and of course the drive to win:

- Technology Adoption & Acquiring for niche capabilities
- Market Tailwinds (infrastructure investment, electric load growth)
- Increased competition for the same assets (outside capital, strategic acquirers)
- Record Private Equity dry powder and the need to deploy it
- Competitive labor market & Scarcity thinking

- Economic Uncertainty
- Shifting Federal Priorities
- Changing regulatory environment
- Stagnant interest rate environment
- Lack of next Generation of leadership

For those making or looking to make acquisitions, how do you typically value your targets?

What factors or characteristics of the target firms do you evaluate?

EBITDA Addbacks

Addbacks enhance value, not valuation. However, reasonable adjustments can help solidify investors' confidence in assigned value.

- "Market" adjustments help enhance EBITDA while providing a realistic go-forward value.
- Add-backs are a means of adjusting EBITDA to represent the earnings an acquirer should expect going forward; and are included in the calculation of Enterprise Value
- As a rule of thumb, adjustments should not be in excess of 15-20% of reported EBITDA
- Not all adjustments are created equal. It is important to know what is standard and what to look out for

Frequently Accepted	
Excess Bonus	Bonuses paid above expectations are frequently accepted, if the buyer is confident they will retain employees at new bonus level
Partner Discretionary	i.e. an auto allowance that would not be expected under new ownership
Third Party Fees	Non-recurring third party costs such as consulting, legal, recruiting expenses
Certain one-time expenses	Some investments, such as software implementation (as opposed to software licensing)

Frequently Declined	
Full Bonus	The acquirer will want to continue incentivizing employees post acquisition, bonus payments are an important benefit
Non-recurring Losses	Addbacks to correct for adverse market impacts such as from COVID-19
Contract Adjustments	In-period adjustments to projects to reflect contracted margins

Balance Sheet Levers

A company's free cash flow profile can influence how investors assign value:

- The majority of M&A transactions are done on a debt-free, cash-free basis; in practice this means that debt on your books will be paid-off or assumed, and therefore subtracted from Enterprise Value
- If your firm is interested in partnering with a Financial Sponsor, it is likely the sponsor will assess the feasibility of a leveraged buyout, which can be more challenging if a firm already carries debt
- It is helpful to understand the levers available to your firm to increase free cash flow

Calculating Free Cash Flow for Debt Paydown

EBITDA	
LESS	***Capital Expenditures***
	Cash Interest
	Increase in NWC
	Cash Taxes
	Other (Non-Cash comp, acquisition expense)
= Free Cash Flow	

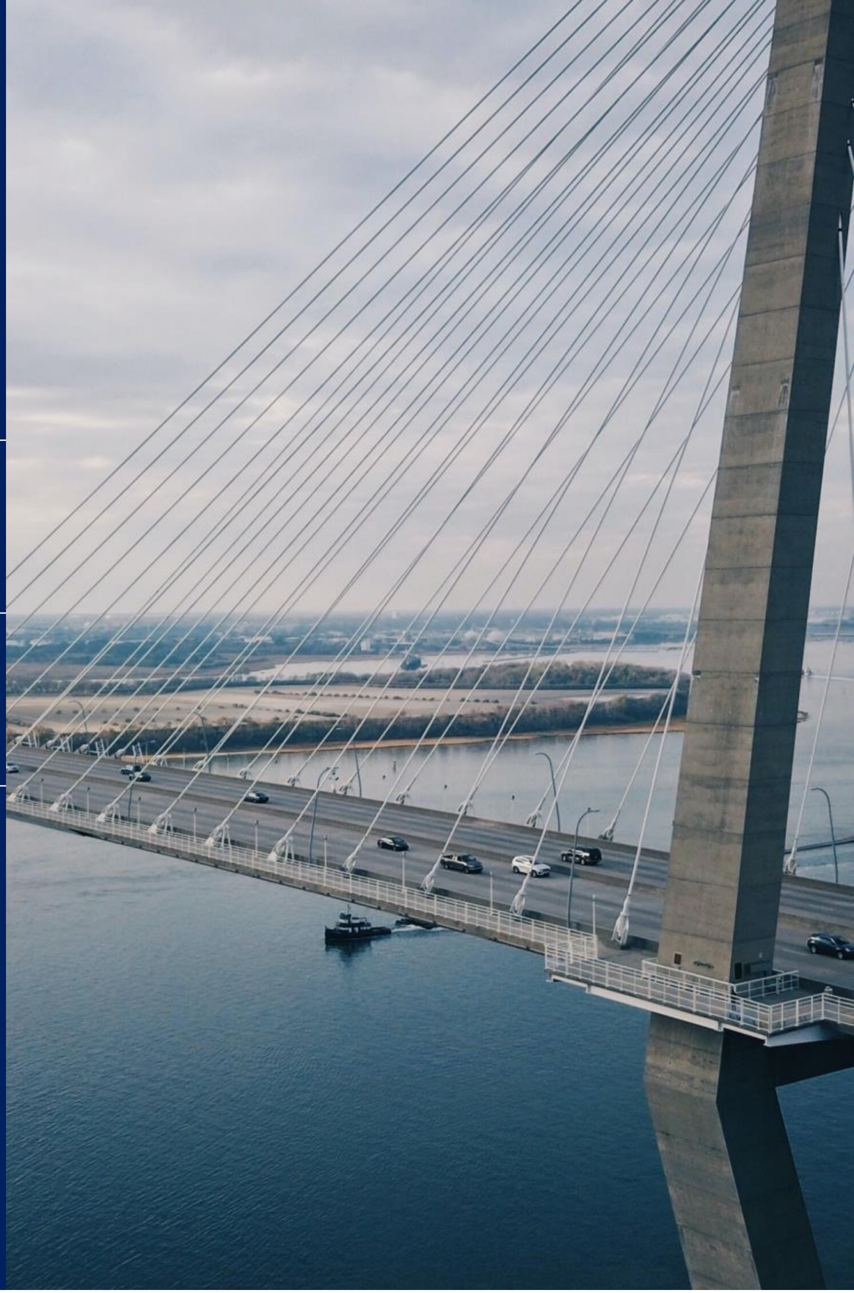
Levers

- CapEx reduces free cash flow; reducing CapEx therefore increases cash available
- CapEx investment varies widely in the AEC industry – from barely any at all, to significant annual investments in fleets and equipment
- What % of revenue is your CapEx? How static or flexible is it?

- Rising interest rates have limited the amount of debt that can be comfortably assumed
- Current market turbulence creating uncertain rate shift timing

Agenda

01	Introduction
02	Presentation & Discussion
03	Wrap Up



Wrap Up

Ask Us Questions

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Environmental Financial Consulting Group

25 YEARS

Refresh Break
Until 3:00 pm

Next Session

Session 5:
The Balancing Act: Evolving Growth vs. Profit Strategies
3:00 pm – 3:45 pm
Lantana North & South

April 9-11, 2025

Irving, TX

Email efcg@efcg.com

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