

Excerpt from

What It's Worth:  
**Architecture  
and Engineering  
Firm Value**

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Firm Value

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A BVR SPECIAL REPORT



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## **What It's Worth**

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## Introduction

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Determining the value of an architecture or engineering (A/E) firm is a complex assignment. A/E firm valuation expert Ian Rusk points out that, within this fragmented industry, appraisers need to consider several business attributes when assigning a value to a firm. Among these attributes are the make-up of firm ownership and the types of services the firm performs. Employee-ownership of A/E firms is the norm. Most firms are owned by the senior managers, often the founders, and there are a very small number of publicly traded firms. Furthermore, the services A/E firms perform are varied. While some firms are pure-play, others perform more than one service for more than one market.<sup>1</sup>

In this broad industry, architecture, engineering, and environmental consulting firms provide design and consulting services in support of the built environment. According to Rusk, most firms generally fall into the following categories:

- Pure architecture firms;
- Architecture/engineering firms (A/E);
- Engineering/architecture firms (E/A);
- Civil engineering/surveying;
- Mechanical/electrical/plumbing engineers (MEP);
- Pure environmental consulting;
- Natural resource consulting;

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<sup>1</sup> Based on the Jan. 8, 2015, BVR webinar Valuing Architecture and Engineering Firms. See <http://bit.ly/1VRI06N>.

- Site assessment/hazardous waste/remediation;
- Environmental/engineering; and
- Construction management/program management.

The pace of consolidation among architecture firms may be slowing. Nevertheless, “mergers and acquisitions (M&As) are forcing a reconsideration of practice,” writes James Russell in *Architectural Record*. For example, large firms with hundreds of employees and design services may seem secondary to the management and delivery of a wide range of services.<sup>2</sup>

Competition is fierce. “You really need to understand your client, the sources of their contracts, their exposure to market sectors, the depth of their management and design talent,” Rusk advises. In an American Institute of Architects best practices guide, Michael Strogoff, lists some of the factors to consider when valuing an A/E firm:<sup>3</sup>

- Ability to obtain new business and deliver it profitably;
- Steady growth and healthy backlog of work;
- Resources, assets, and cash flow;
- Employee levels;
- Appropriate lengths of time current owners can, and will, stay during a transition;
- Depth of key staff, including next generation of owners in place;
- Amount and quality of intellectual capital; and
- History of litigation and claims.

In this BVR special report, *What It’s Worth: Architecture and Engineering Firm Value*, experts expand on these issues to help business valuers, business brokers, and A/E practice owners understand the nuances to valuing a firm, along with metrics to help benchmark value.

Jan Davis  
Senior Contributor  
Business Valuation Resources

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<sup>2</sup> James S. Russell, “Is Bigger Better?” *Architectural Record*, May 2015. Available at <http://bit.ly/1i3Kwbt>.

<sup>3</sup> Michael Strogoff, “How Much Is Your Firm Really Worth?” AIA Best Practices, American Institute of Architects. Available at <http://bit.ly/1K2aaqs>.

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**SECTION I:  
VALUING ARCHITECTURE AND  
ENGINEERING FIRMS**

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## 1. Risk Factors to Consider When Valuing an Architecture/Engineering Firm

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The valuation of an architecture or engineering (A/E) firm presents a number of special considerations—unique issues that ultimately affect the value or risk rate. In this chapter, Ian Rusk examines the more important risk factors to consider when valuing an A/E firm.<sup>1</sup>

**Market sector exposure (private vs. public).** Rusk says that appraisers should ask whether the A/E firm being valued is focused predominantly on servicing the private sector versus the public sector. “A good mix of public and private sector clients is best,” he stresses. During the Great Recession, firms that focused predominantly on the private sector were affected the hardest. Firms that had a mix of clients that were able to shift to public-sector work performed much better. There is risk associated with both sectors, and firms that have the ability to go from one to the other easily tend to have the lowest volatility.

**Client concentrations or submarket concentrations.** Another area on which to focus according to Rusk is the client mix. Appraisers should determine whether the A/E firm has a diverse mix of clients or whether it is servicing a limited number of clients? If an environmental consulting firm has 75% of its business with one particular developer in a major city, for example, and that relationship sours or is severed, the impact on the firm revenue as a whole is tremendous.

**Management strength and depth.** It is common in the industry to see firms with management concentrated in one or two individuals. Firms that have a deeper management team where successors have been identified have lower risk associated with them and, therefore, higher values.

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<sup>1</sup> This chapter is based on the Jan. 8, 2015, BVR webinar Valuing Architecture & Engineering Firms.



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