



The Blueprint Breakdown

Engineering and Infrastructure Services

M&A Trends & Market Dynamics

2023 Year In Review

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Engineering & Infrastructure Services M&A Overview

Leveraging the favorable trends from 2022, the engineering and construction (C&E) sector sustained a steady but moderate level of transactional activity throughout 2023. By the end of the year, the industry had reported 563 deals across North America.

Rising interest rates and consequential economic uncertainties impacted the M&A environment across all sectors in 2023. As a result, M&A mandates experienced extended timelines to close, due to increased comprehensive due diligence to satisfy a more conservative perspective on capital deployment by prospective purchasers.

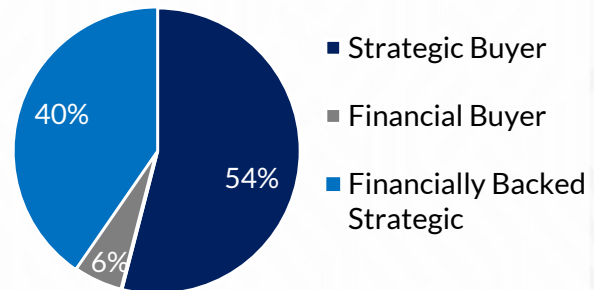
North American Disclosed Transaction Volume



In 2023, strategic buyers, primarily driven by their goals of diversifying service offerings and acquiring talent, formed a modest majority of purchasers. The year also marked a significant presence of financially supported strategic buyers, reflecting a continued focus on growth through strategic alignments and acquisitions.

Furthermore, 6% of the industry's transactions involved financial buyers, driven by private capital providers' ongoing interest in the engineering sector.

2023 Purchaser Universe



The Drivers for M&A Activity



Demand Drivers

What is driving the purchaser universe?



Major public companies in the space have been generating strong cash flow and are continue to view M&A as an opportunity to deploy capital for growth.



Private Equity: Driven by attractive growth prospects and industry dynamics, private equity firms are seeing the strategic value of being an industry consolidator.

- ✓ Infrastructure investment provide opportunities for stable revenue growth, attractive EBITDA margins, and dependable cash flow characteristics.
- ✓ Diverse customer base with limited reliance on single customers.
- ✓ Industry is highly fragmented with opportunities for consolidation.
- ✓ Meaningful opportunities for vertical integration and regional economies of scale.



People: There is a growing demand for qualified engineering professionals across North America, driving a talent acquisition strategy whereby industry leaders acquire smaller firms to build out their labour force and enhance technical expertise.



Service Offering Diversification: The acquisition of smaller firms has proven to be an efficient gateway to new markets and service offerings.



Supply Drivers

What is driving the seller market?



Succession planning and ownership transition: C&E firms are seeking the best option for a successful transition of the business to the next generation, whether it be an employee ownership plan, management buyout, or an outright sale.



Growth: Seeking a right-fit partner to facilitate and expedite the next phase of growth for the firm.

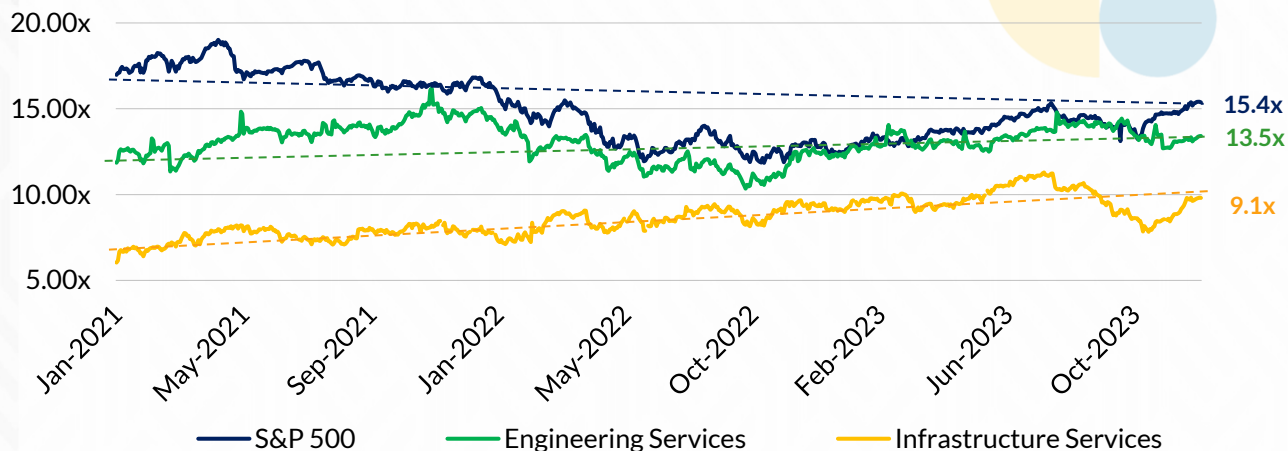


Labour Shortage: Ongoing frustration attracting new graduates and experienced professionals in the current market.



Market Conditions: Uncertainty around the future as it relates to the macroeconomic climate and sector specific sentiment.

Public Market Valuations⁽¹⁾



- The graph presented above demonstrates the industry's resilience amid economic volatility. While the average S&P 500 company experienced a 9% decline in multiples over the presented period, engineering and construction firms' multiples have modestly increased over the same period.
- The industry's resilience predominantly stems from its exposure to a broad project portfolio across multiple sectors and the ongoing investment in the restoration and replacement of North America's aging infrastructure.
- Analyst's expectations are that multiples will remain relatively robust supported by attractive market dynamics and increasing investor interest in the sector creating an attractive landscape for continued M&A activity in 2024.

Comparable Companies Analysis	
As at December 31, 2023 (Millions \$CAD)	
Company	EV/ 2023 EBITDA
Engineering Services	
Jacobs Solutions Inc.	12.1x
WSP Global Inc.	15.7x
AECOM	16.2x
KBR, Inc.	9.2x
Stantec Inc.	18.2x
SNC-Lavalin Group Inc.	16.5x
Fluor Corporation	9.4x
NV5 Global, Inc.	15.1x
Willdan Group, Inc.	9.6x
Infrastructure Services	
Quanta Services, Inc.	12.5x
MasTec, Inc.	6.1x
Dycom Industries, Inc.	8.1x
MYR Group Inc.	12.5x
Primoris Services Corporation	6.6x
Average Engineering Services	13.5x
Median Engineering Services	15.1x
Average Construction Engineering	9.1x
Median Construction Engineering	8.1x

⁽¹⁾ Source: S&P Capital IQ

Private Equity Activity in the Space



In North America, there has been significant interest and M&A activity from private equity firms in the engineering space. This uptick has largely been driven by steady revenue growth, attractive EBITDA margins, and dependable cash flows along with attractive organic growth opportunities and industry tailwinds from government funding for many key infrastructure projects.

Construction and engineering firms are also gaining an appreciation for the merits of partnering with private equity firms to help transition ownership of the business and deploy capital for growth. As a result, private equity is becoming increasingly prevalent amongst some of the largest construction and engineering firms in North America. The industry has seen an uptick in private capital investment as many firms are exploring transition plans through either a recapitalization or sales process - many of which involved a private equity or private equity-backed strategic counterparty.

Notable Private Equity Parties



- Private Equity backed strategic with 7 transactions in the E&C space since 2020.



- Since Sequeira sold Thompson & Ruskin, Hillcore has purchased Midlite Construction to further expand its Western Canadian infrastructure presence.



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- Acquired Montrose Environmental in 2018 and Enercon, an engineering & environmental services firm in 2023.



- Acquired WSB & Associates, an infrastructure engineering consulting firm with 36 offices across the United States.
- Acquired EST Inc., a transportation infrastructure engineering consulting firm with 16 offices across 4 states.

Select Transactions

Select Canadian Disclosed Engineering Deals

Date	Target	Target Prov.	Buyer	Ref
January 2024	Morrison Hershfield	Ontario	Stantec Inc.	
Dec 2023	Apex Geoscience	BC	Fort McKay First Nations	
November 2023	C3 Water Inc.	Ontario	ClmA+	1
September 2023	Midlite Construction Ltd.	AB	Hillcore Financial Corporation	2
July 2023	Ecogenie Inc.	QC	ClmA+	1
June 2023	Thompson Construction	AB	Hillcore Financial Corporation	2
June 2023	Taifa Engineering Ltd.	AB	RESA Power, LLC	
June 2023	McIntosh Perry Consulting Engineers Ltd.	Ontario	Egis	
May 2023	Matrix Solutions Inc.	AB	Montrose Environmental Group, Inc.	
May 2023	LGT Inc.	QC	WSP Global	
May 2023	GM BluePlan Engineering Limited	Ontario	GEI Consultants, Inc.	3
Jan 2023	Triton Environmental Consultants	BC	Copley Equity Partners	3
July 2022	Ecofish Research Ltd.	BC	Trinity Consultants, Inc.	4

1. ClmA+ successfully completed four acquisitions across Canada in 2023. These transactions represent a continued strategic focus to broaden and diversify the firm's portfolio of sustainable engineering services and solutions in Canada.
2. The Hillcore Group has been a notable acquirer through 2023 with a focus on building a portfolio of heavy civil, industrial and infrastructure companies operating as critical service providers to specialized infrastructure end markets in Western Canada.
3. Increasing private equity participation in the space underscores the sector's attractiveness for investment from private capital sources.
4. Sequeira Partners advised EcoFish on the sale to Trinity Consultants who has been an active acquirer in the Environmental Engineering & Consulting sector with 8 acquisitions in the past 24 months.

2024 Outlook – Key Factors



✔ Buyer Appetite - STRONG

The engineering sector continues to draw considerable interest from both strategic and financial purchasers. Strategic purchasers are actively engaging in deals to diversify service offerings and expand geographical reach, aiming to enhance their market presence and adapt to the evolving competitive landscape.

The inherent scalability of engineering companies combined with the consolidation opportunities in the sector offers a unique blend of stability and potential for growth. This dynamic represents a very compelling environment for private equity investors looking to deploy capital and maximize returns. A healthy level of interest from strategics in pursuing acquisitions also lends itself to eventual exit planning for private equity based engineering platforms.

⊖ Credit Markets & Macro-Economic Environment – IMPROVING

At its latest meeting in March 2024, the Bank of Canada signalled its intentions to maintain its benchmark interest rate at 5%. Analyst expectations are we'll begin to see rate cuts in 2024, though timing is uncertain. This has alleviated fears around continued rate increases and the impact it can have on economic activity. With a stable to modestly decreasing rate environment, we expect this will act as a catalyst for M&A activity in 2024 as buyers look to deploy capital in a transaction environment that is not hampered by borrowing cost uncertainties.

While the broader economic outlook for 2024 in Canada remains subdued, rate cuts in the last half of the year could lend itself to a spur of growth that could be perceived to gain momentum into 2025.

✔ Business Performance – STRONG

Major public companies in the construction and engineering sector continue to generate strong earnings, even in the face of potential economic headwinds. A number of large scale strategics have taken advantage of government spending and investment in new large-scale multiyear infrastructure projects across North America.

★ Trend to Watch – Private Capital Model

As engineering firms continue to see the merits of private equity as a partner and capital provider to facilitate ownership transition and growth, the expectation is that the traditional employee-owned model will be increasingly replaced with private capital willing to entice shareholders with strong multiples. This trend has become more prevalent in 2023 as more construction and engineering players are beginning to pursue recapitalizations or initiate sales mandates of which private equity and private-equity backed strategics have participated in at increasing rates in recent years.



Interested in Learning More?

If you are interested in learning more as a potential buyer, seller or engineering and infrastructure services industry enthusiast, we would love to hear from you.

Our dedicated team is always available and eager to discuss market trends and strategize on opportunities.

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About Us

Sequeira Partners is Western Canada's largest boutique advisory firm, specializing in sell-side deal advisory and corporate valuations. Having completed more than 175 national and cross-border transactions, and over 500 valuation mandates, we are proud of our diverse industry experience and credentials. At Sequeira Partners, we combine decades of experience and top-tier credentials to deliver client-centric service with a personalized, boutique approach.

Learn more at: www.sequeirapartners.com



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