

Proactive Investment Strategy In Engineering Services: Establishing A Robust Market And Competitive Fact Base For Evaluating Targets

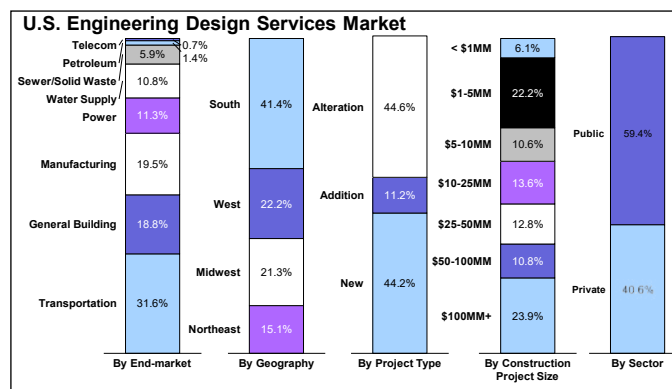
The Challenge: Our client, a large PE firm, was considering investing in the engineering services market, as it was attracted to the growth opportunities of this sector for several reasons: aging infrastructure; large government investment through the Infrastructure Investment and Jobs Act of 2021; a fragmented market, prime for consolidation; and the presence of large PE platforms as suitable targets. Our client was looking to build a fact base to evaluate targets as they come to the market. As such, our client asked Gotham to conduct a 4-week proactive investment strategy effort to establish: (1) engineering services market size and growth outlook; (2) competitive intensity by services and geographies; and (3) attractiveness of potential acquisition targets.

Local Market Facts To Support Investment Decisions: To develop a robust market and competitive fact base, Gotham:

- Built a granular market sizing model of the U.S. engineering services market by end-market, geography, service type (e.g., design, construction/project management, inspection), project size, project type (new, addition, alteration), and sector (public, private) and created an easy-to-use dashboard tool for the investment team to visualize a target's served addressable market size, historical and projected growth rates, and competitive positioning by inputting its specific end-markets and geographies
- Established competitive intensity in each geographic area by end-market including number of firms, revenue, and key players
- Determined served addressable market and growth outlook for initial list of acquisition targets based on their end-market and geographic presence to narrow down the list to the 3 most attractive targets
- Conducted ~80 interviews with engineering services buyers in geographies served by the 3 shortlisted targets to understand: their buying behavior; key selection criteria; each target's market presence; and each target's reputation/competitive positioning.

Complex And Highly Localized Engineering Services Market Is Expected To Grow At 3.7% CAGR Driven By Aging Infrastructure, Energy Transition, And Infrastructure Bill

The engineering services market is local in nature, with the growth profile of engineering firms dependent on geographies and end-markets they serve. Infrastructure spending is determined by local/state governments and private spending decisions are made by local real estate developers and businesses/institutions. The engineering services market also varies by geography, with growing regions tending to have more new construction resulting in large engineering projects, and slow-growing regions tending to have a greater number of alteration projects resulting in smaller engineering projects. Furthermore, engineering needs vary across end-markets (e.g., transportation, water, power), leading to specialization among engineering firms. Moreover, increasing demand for specialized services (e.g., geospatial, inspection) further drives specialization among firms. The market is affected by several macro trends: the aging infrastructure; transition toward renewables driving investments in electric grid; and the infusion of federal funds through the \$1.2 trillion infrastructure bill. Engineering services are also generally recession-resistant as infrastructure-related construction activity saw only a small decline during the deep 2008-2011 recession due to government efforts to spur economic activities.



Fragmented Competitive Landscape Characterized By Companies Focusing On Specific Services And/Or Geographies

The engineering services competitive landscape is fragmented due to its local nature and end-market specialization. As projects are bid out at local level, engineering firms require local relationships to build reputation along with physical presence for site visits. While large, multi-billion-dollar projects like highways and transmission lines, require the involvement of large, national firms, smaller construction and alteration projects often go to smaller local firms. Moreover, engineers have the ability to start their own firms after establishing local reputations and relationships, further contributing to fragmentation. These dynamics have led to the emergence of regional firms having strength in their geographies. Amidst this fragmentation, the industry is experiencing consolidation as PE firms aim to create more robust regional and super-regional platforms. These platforms, benefiting from scale and financial resources, are better positioned to win RFPs for medium-sized projects while maintaining the local presence necessary for smaller projects. In addition, these platforms are able to leverage cross-selling opportunities, improve talent retention, streamline business development practices, and integrate advanced technology, thereby increasing their competitive edge.

Shortlisted Acquisition Targets Provide Our Client Ability To Focus Its Acquisition Efforts

Leveraging our market sizing and competitive tools, Gotham conducted an assessment of 12 potential acquisition targets our client was tracking. We analyzed each target's served addressable market size, growth rates, and competitive positioning, enabling our client to shortlist 3 with the highest growth potential, an appealing end-market mix, and a strong presence in key regions. Target 1 is renowned for its specialization in mid-sized infrastructure projects and its ability to build lasting client relationships. Target 2 has emerged as a strong regional player, recently expanded through strategic acquisitions, benefiting from its local presence and service offerings. Target 3 is a large geospatial and inspection services provider, well-respected for its technology and service quality. Collectively, these 3 targets have demonstrated outstanding M&A capabilities, having executed ~30 acquisitions over the past 7 years in order to broaden their service capabilities and geographic reach.

The Outcome: Gotham provided our client with a robust fact base and easy-to-use tool for evaluating served addressable market size, growth rates, and competitive positioning of potential acquisition targets. We helped shortlist targets, providing our client a jump start in the process of evaluating potential investment opportunities and pursuing targets with confidence.