

KEYS TO SELLING Your Construction Company



Investment Banking | ESOP | Valuation | Advisory

Determining the value of a construction company in a merger and acquisition (M&A) transaction is unlike most other businesses. The numerous variables surrounding construction operations makes predicting a valuation challenging, and sometimes the highest value to the seller requires unique terms and conditions in a sale.

The successful sale of a construction company is similar in many ways to other companies – good financial records, stable and deep management team, defensible markets and specialty services all add value. However, the unique characteristics of construction companies – bonding, contracts, bidding, unions, licensing – when all combined can make the sale effort uniquely demanding.

The following is a checklist to ensure that your business is ready to begin the exit planning process.





Personnel

If the skills and experience of your staff have been the reason for your current success, retention will be necessary for a successful sale. You need to be mindful of the age of your management team. If your senior level folks are nearing retirement, then a buyer will have concerns about how to replace their experience and key contacts in the marketplace.





Training & Safety

Training and safety programs are a required element for all construction companies. You will need to be able to demonstrate and document how you are continually improving the skills and experience of your workforce. Increasing regulations are forcing many companies to spend more time and money in these areas. Review of your safety record is an essential due diligence element of all buyers. Be prepared.





Marketing & Customers

The marketing efforts of most small construction companies exist primarily due to relationships of the owner. If you want to sell your company and exit shortly thereafter, you will need to diversify the source of revenue generation internally and build a marketing and sales program that will succeed with your departure. This means creating a marketing plan to target segments or geographies that will keep your sales pipeline full. You will need to introduce your senior management to key customers to show relationships have grown beyond you.





Contracts

Buyer due diligence will closely scrutinize both current and completed contracts. Final profit margins of completed contracts will be compared to the profit margins reported on these contracts while in progress. Some industry insiders refer this the “fade” as profit might be overstated during the period of construction period, only to diminish upon completion. The fewer incidents of shrinking profits upon contract completion will give the buyer confidence that your current contracts are being reported accurately.





Contracts — continued

Value is based on the ability of the seller to convey ownership to a buyer. Depending on the nature of the transaction – stock or assets – you will need to make sure that your contracts are assignable and require little or no approval by your customers.

Keep statistics on how you obtain your contracts. The more history the better. How many contracts are negotiated versus bid? What is your success rate on contract bids? What is the profit margin on negotiated versus bid contracts? Analyze how your contracts breakdown between type of customers. All of this analysis will help the buyer understand your business better.



Pipeline & Backlog



The pipeline and backlog represent the near term future earnings of the company and will be measured by your pipeline of prospective jobs and booked backlog. Building a continuous and solid pipeline of project opportunities is important to demonstrate the ability of the company to continue operations. Discussing future opportunities with a buyer will demonstrate how you find and obtain projects, and how your team interacts with those future or past clients. Conversion of your pipeline into client contracts demonstrates a strong market position for your company.

A larger backlog usually translates into a higher valuation. However, your backlog level needs to be consistent, an unusual spike upward will be given less credit versus a continuous rising level. Profit margins will be analyzed to see if reported historical profits are being maintained in your existing contracts.



Bonding



Strategic buyers (construction companies) understand and expect bonding requirements. However, as a seller it is important to make sure early in negotiations with prospective strategic buyers you will need to make sure that they can increase bonding limits and potentially contract amounts. Financial buyers typically struggle with bonding requirements and this is often the reason they are not active acquirers in the construction industry.

Concentrating on the standard basic principles of selling your company is very important. However, as you move to sell your construction company, you need to focus on these unique elements that will obtain you the highest value for your company.



Have You Thought About Your Next Move?

Selling your business is a life-changing decision that must be made with care. It's never too early to start preparing for your succession. Some of our most successful transitions started with conversations five years before the actual sale. We're happy to discuss your particular business and provide value-adding strategies specific to your farm that you can implement now that will increase your value later. Contact us today to get more information about how we can help.

To supplement this article, please refer to our [Guide to Selling Your Business](#).

PCE has a team of credentialed investment bankers and valuation experts available to help you. Whatever you wish to accomplish, our team can define, analyze and present solutions that allow you to take the next step.



Contact Us



Michael Poole

Investment Banking

407-621-2112

mpoole@pcecompanies.com

Orlando Office



Michael Rosendahl

Investment Banking

201-444-6280 Ext 1

mrosendahl@pcecompanies.com

New York Office



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