

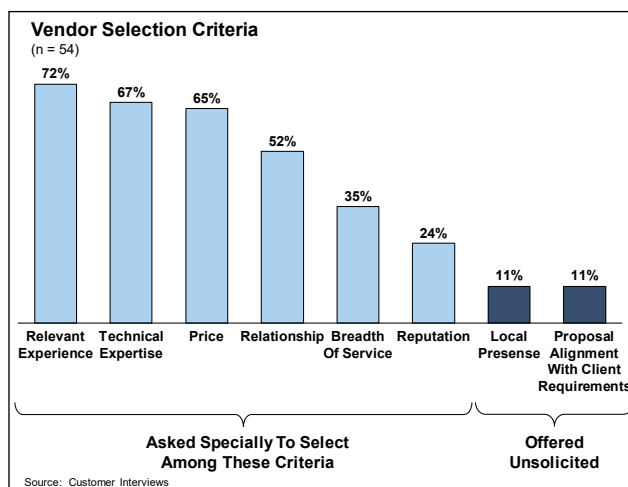
Customer & Market Due Diligence Of Specialty Engineering Consulting Firm: Clarifying Investment Potential In Highly Complex Niche Market

The Challenge: Our client, a mid-market PE firm, was in advanced negotiations with a specialty engineering consulting firm offering a diverse range of highly technical, premium consulting services focused primarily on the heavily-regulated building market. Through an aggressive growth strategy of opening new offices and acquiring small competitors, the target's entrepreneurial-minded management had transitioned the target from a regional firm servicing U.S. Navy contracts to a global company with 22 offices worldwide. With growth came complexity, as management penetrated into new and highly-diverse end-markets. To sort through the target's complex market dynamics, validate its competitive positioning, establish the criteria driving customer buying behavior, and provide clarity on growth opportunities moving forward, Gotham conducted a 3-week customer and market due diligence.

Niche Market Assessment: Gotham quickly created a robust market and customer fact base from various sources, including: secondary research, U.S. real estate data, and 60+ interviews with customers (e.g., architects, general contractors, building managers, regulatory authorities), and information we obtained during management interviews from our parallel operational due diligence. Bringing to bear our expertise in niche market analysis, we were able to rapidly generate fact-based reliable information on the target acquisition for our PE client.

Target's Core Business Offers Attractive Growth Opportunity In Selective End-Markets

1. **Segmented design/consulting business** into end-markets defined by building type/use (e.g., Commercial, Industrial).
2. **Performed deep-dive analysis of the market drivers/trends** in each end-market; identified building construction/renovation activity, complexity, and regulation as the 3 most critical drivers of end-market demand. Also found that the level of technical expertise required per project varies greatly by building type – building projects with a higher level of design complexity (e.g., airports) or safety regulations (e.g., hospitals) require greater technical expertise, generate longer projects, and achieve higher prices.
3. Utilizing U.S. real estate/construction forecasts from leading research institutions, **built a “bottom-up” market size/growth model** for each end-market, and triangulated appropriate pricing and demand levels for each building segment using data from customer interviews, management interviews, and project-specific costing data (developed as part of our operational due diligence).
4. **Calculated 8% 5-year CAGR in target's overall core service market**, with Healthcare (11% CAGR), Education (10% CAGR), Airports & Public Spaces (7% CAGR), and Government (6% CAGR) end-markets projected to show the strongest growth.
5. Recommended that **post-acquisition growth focus should be on those end markets** in which increased building complexity and regulation are driving greater demand for premium engineering services (e.g., Healthcare, Education).



Target Is A Market Leader In This Highly-Fragmented Market

We profiled 180+ engineering firms and segmented the competition into 4 categories based on technical expertise. Gotham's research verified that the target is among the most highly technical service providers in the industry and concluded that the company faces its greatest competition from similarly focused specialist firms along with general engineering firms that have begun to build specialization in technical services. The target's highly technical specialists' playing field accounts for ~35% share of the total market, with the target well positioned as the overall market leader within this capability group. As validated by customer interviews, the target has a reputation for high-quality service. However, the target has limited brand recognition outside of its current customer base, leading to Gotham's recommendation that efforts to expand brand awareness in the larger end-markets of interest will be an important early post-acquisition effort.

Target's Reputation As High-Quality Provider Is A Key Attribute In Vendor Selection

Customers interviewed overwhelmingly reported that a firm's relevant project experience, technical expertise, and service pricing are primary factors in vendor selection. Existing relationships also play a large role in vendor selection as only ~40% of interviewees stated that they invite bids for each project, with the remaining preferring to hire firms with whom they have an existing relationship.

The Outcome: Our PE client was able to move forward with the transaction with confidence as a result of Gotham's due diligence findings, which validated the target's competitive positioning and growth potential in this highly-fragmented and complex market. Post-acquisition, Gotham supported target's Board, led by a PE-appointed industry veteran, in its strategic planning efforts.