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Mergers & Acquisitions

Environmental Business International Inc.

M&A MACHINE GRINDS ON; ACTIVITY LULLS BUT DEMAND AND VALUES RISE

As global M&A dips in 2023, environmental M&A activity still near record highs in many segments.

Strong industry fundamentals and a variety of buyers kept merger and acquisition (M&A) activity high across the environmental industry in 2023. Economic issues and interest rates that slowed activity significantly across other sectors kept transaction numbers lower than in 2022 in most segments, and a decreasing pool of acquisition candidates lowered the size of the average deal, as well as put upward pressure on valuations. With client demand strong across multiple categories, the energy transition still in its earliest phases, investment need high in human resources and technology, and more capital flowing into the entities fueling much of the recent surges in M&A, the trends of high activity and strong valuation are likely to continue.

So why would acquisition activity be somewhat reduced in 2023? One could surmise that firms were so busy with double-digit growth and the hiring of talent through traditional methods, slowing down some M&A activity. Economic factors, principally higher interest rates, also have an impact on the financing aspects of driving some of the deals, so that is a factor. An ample supply of acquisition candidates may also be a factor in certain geographies or service areas, although this is not often cited by acquiring firms unless the criteria for an acquisition candidate is of a size or scale well above the average deal. **Morrissey Goodale** data on 2023 U.S. M&A transactions in the architecture, engineering and environmental consulting sector indicated that the median seller had revenues and headcount of only \$3 million and 20 people, respectively, in 2023.

Inside EBJ: Mergers & Acquisitions 2023

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Overheated valuations or overinflated expectations of value or price of companies is almost always a factor in any deal — and price is always a negotiating point — but with overall valuations indexing at higher multiples of earnings in the current environment, seller expectations of a buyer 'overpaying' are likely magnified.

And what does the level of merger and acquisition activity mean? First, it is an indicator of overall industry health, reflected in the number of acquirers seeking growth in multiple attractive markets — and their ability to raise or access capital, or generate enough cash flow to finance their own acquisitions. It is also a reflection of an abundant number of acquirable candidates as well, which only continue to be produced in active M&A environments with multiple growth markets for companies to engage in.

Second, M&A activity is inevitably impacted by overall macroeconomic trends which mostly manifest in the ability of the acquiring companies or the investors participating in M&A accessing capital or debt instruments to finance acquisition campaigns. Here interest rates are the most influential indicator, raising the overall cost of capital and curtailing acquisition activity in some cases. Traditional debt governed or guided by the interest rates set by the Federal Reserve are by no means the only source of financing M&A, but many other instruments are impacted by the overall economic situation and even directly by the prime rate.

Other economic factors like inflation, labor rates, stock market performance, consumer spending, construction activity, property values, and other factors related to primary markets for acquisition candidates can also have significant impact on M&A.

These two major factors of industry prosperity and tight financing likely play into the scenario of the final count of deals consummated in 2023 in the consulting & engineering segment being still near historic highs, but a slight but notable drop off from 2021 and 2022. The most logical explanation being the ongoing health and dynamism of the industry remains a strong

positive, and the economic drag of higher interest rates is influential, but not enough to curtail the majority of M&A activity underway or in process.

A final factor worth commenting on relates to the breadth and depth of the acquisition candidate pool—and in the environmental industry this varies considerably by segment. One of the reasons cited in many investment propositions or capital raising documents for investment funds or company roll-up strategies is that the segment in question that they are targeting is 'highly fragmented'. This means no clear and dominant market player or players usually, but more an abundance of acquisition candidates to sustain a long-term acquisition campaign. It also means opportunity for increased strategic market position or even dominance in particular client sectors or subsegments.

Another characteristic of the environmental industry is its multiple segments, and the multiple subsegments of all of these segments. The result of this is that many acquisition strategies or investment propositions may target a major segment or segments, but inevitably will focus down on a subsegment or series of subsegments to be custom designed or defined as their own competitive gameboard. This may make life interesting for strategists and market analysts, EBJ included, and chief strategy officers and other executives in charge of charting the future in the evolving environmental and climate change industries, but may not make it so easy to simplify

these strategies and investment propositions to the financiers who may back them.

The redefining the gameboard exercise continues to be played out as the environmental industry and energy transition evolves, with the welcome result that the investment community continues to be more familiar with industry segments, as well as the multiple business models in professional services: time-and-materials and fixed-price contracting, project teaming, risk management, materials handling, construction, contract operations, information management, energy services, mitigation banking, etc. Increasing comfort and capital along with deal experience adds up to continued M&A activity.

APPROACHES TO M&A

Growth strategies almost invariably combine objectives in organic growth and acquisitive growth. Acquisitions can be opportunistic, but from a strategic standpoint, acquisitions are usually in pursuit of geographic expansion, entry into a new major client category, or increasingly in the addition of a new service category in the seemingly perpetually dynamic demand situation that are the environmental and climate change industries.

New service offerings in demand can also be in the form of new technologies to expand or differentiate existing service lines. Like in the past, there are still examples of firms buying into entirely new media categories: A firm specializing in air quality or remediation buying into natu-

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NSD + CGS IS A NATURAL FIT OF ALIGNED MISSION & MOTIVATION IN NORTHWEST NATURAL RESOURCES MARKET

Natural Systems Design Inc. (NSD) is a Pacific Northwest environmental engineering firm that specializes in the restoration of rivers, shorelines, and wetlands. Founded in 2003, the firm's design approach adheres to the philosophy that clean water and functional natural processes are critical to sustaining a healthy aquatic ecosystem. Through combining ecology, geomorphology, hydrology, hydraulics, and engineering services, NSD designs rivers, streams and wetlands that look and perform as functional ecosystems. NSD scientists and engineers work to restore aquatic and ecosystem processes to self-sustaining conditions. Whether through design of innovative flow regimes to restore hyporheic zones, enhancement of habitat complexity using large wood and log jam structures (ELJs), or design of riparian zones and instream spawning and rearing habitat, the firm works along urban streams, large rivers, and their tributaries, in estuaries, and along shorelines to restore watershed processes. NSD has an interdisciplinary team of 51 professional employees. The company has offices located in Seattle, Bellingham, and Port Angeles, WA.

Leif Embertson, President, Principal River Engineer. Mr. Embertson has a truly unique experience in and knowledge of riverine and aquatic environments emanating from education, training, project experience, and extensive personal interest in the field.

Jim Johannessen, Principal Coastal Geologist. Mr. Johannessen founded Coastal Geologic Services (CGS) in 1993 to provide consulting services on coastal and estuarine processes, coastal bluff geologic processes, and coastal management throughout the Salish Sea and Pacific Northwest. In September 2023, Natural Systems Design (NSD) acquired CGS, and Jim has since joined NSD as a firm Principal.

Alyssa Castro, Marketing and Business Development Manager. Ms. Castro is a marketing and business development professional with a passion for doing creative and meaningful work that makes a positive impact in people's lives and their environment. With 24 years of overall experience, 16+ years of her career have been spent in the AEC/RE industry rooted in the Pacific NW.

Will Templeton, Senior Coastal Engineer. Mr. Templeton has been working in the marine and estuarine environment since 2010 and has been a practicing coastal engineer since 2014, specializing in coastal and estuarine hydrodynamic, sediment transport, wave, and CFD modeling, design of coastal structures, and analysis and design of beaches and marshes.

EBJ: Congratulations on the recent acquisition of Coastal Geologic Services. Can you provide an overview of the transaction?

NSD + CGS: In September 2023, **Coastal Geologic Services (CGS)** joined Natural Systems Design, Inc. (NSD), a Pacific Northwest environmental engineering firm based in Washington. CGS serves coastal land managers through assessment and design projects and provides regional science studies primarily in the Puget Sound area, and in the greater Pacific Northwest.

The (informal) mission and motivations of CGS and its employees closely match those of NSD. They prioritize integrity, innovation, and a positive impact, and are proud to have had major roles in the restoration or redevelopment of virtually all of Bellingham's beaches and estuaries, and with similar projects scattered around the region, as far away as Mason County, Clallam County, and lower British Columbia.

This acquisition expands NSD's interdisciplinary team and capabilities, providing increased value to rivers, shoreline, wetland, and now coastal ecosystems and local communities. Adding nearshore ca-

pabilities gives NSD the opportunity to expand its positive impact on coastal/near-shore areas that are critically important for salmonid recovery. We can also help reduce coastal erosion and flood risks to landowners and infrastructure. Moving forward together, NSD + CGS will continue to deliver leading edge services with enhanced capability and expertise in applied coastal management and engineering.

EBJ: For staff that specialize in Coastal Engineering and Design, what opportunities are now available because of joining Natural Systems Design?

NSD + CGS: The motivations of NSD and CGS are very similar – utilizing nature-based solutions to increase the resiliency of the planet's waters while maximizing habitat benefits. NSD's acquisition of CGS brings opportunities for a systems approach to both habitat restoration and flooding risk reduction in terms of relationships between upland waters, wetlands, estuaries, and coastal waters. A systems approach to planning and design provides the best possible approach to both restoration and resiliency as the hydrologic system does not operate in isolated compartments – adult salmon, for example, migrate from the ocean to upland home waters through estuaries to spawn, the fry feed and migrate downstream from their home waters to lowland estuaries as juvenile salmon, and eventually migrate back out to the ocean to grow and prepare to repeat the cycle. The combination of NSD + CGS ties together this cycle in terms of a systems approach to restoration and resiliency planning.

EBJ: Can you provide an overview of the coastal engineering services market?

NSD + CGS: The coastal engineering services market consists of the planning, design, and management of coastal areas, including estuaries and wetlands, to address challenges such as flooding, erosion, and habitat, particularly in the face of increased storm frequency and intensity and sea level rise due to climate change, as well as population increases in coastal areas. Over the past several years, there has been an increased focus on resiliency and planning and designing to maximize habitat benefits in the built environment. The

Infrastructure Investment and Jobs Act and the Inflation Reduction Act, passed in 2021 and 2022, respectively, are providing a sizable and much needed source of funding to support coastal resiliency and restoration projects around the US. With the increased funding, a broad realization that working with nature provides greater resiliency than working against nature, and the unique challenges presented by working in such a dynamic environment as coastal areas, the coastal engineering sector is poised to grow over the coming decades.

EBJ: What are the most sought-after characteristics in environmental firms for M&As, and why?

NSD + CGS: Cultural fit and alignment of purpose/mission within both organizations is key.

EBJ: How do you ensure continuous improvement in company performance, profitability and growth?

NSD + CGS: Our company continues to remain a purpose/mission driven company dedicated to having a big positive impact. This allows us to attract and retain awesome employees and clients that then help drive improvements in company performance. In 2023, we completed our first company strategic plan that clarified the organization on where we are headed and aligned to the leadership team. Through that clarity and alignment, we have invested in processes related to operations, marketing, and financial tracking needed for improvements in company performance.

EBJ: How are you navigating the balance between immediate financial gains and long-term growth & goals?

NSD + CGS: We are determined to be here for the long-term and decisions and planning are made with the goal in mind. To ensure we remain a viable independent company, we also must achieve near-term financial goals, but we have chosen to never sacrifice our purpose/mission, values, or our people to achieve immediate financial gains. To ensure we achieve near-term financial gains the leadership team and entire company is updated monthly on YTD financial, workload, and business development. ■

Natural Systems Design Acquires CGS

In September 2023, **Natural Systems Design** acquired **Coastal Geologic Services** after years of working together on various river and shoreline restoration projects. Natural Systems Design and Coastal Geologic Services (NSD + CGS) complement each other, providing clients with a broad spectrum of scientific and engineering services. With the addition of CGS, NSD offers unparalleled regional expertise in littoral drift and coastal dynamics, slope stability assessment, armor removal, soft shore protection/nature-based solutions design, nearshore restoration design, sea level rise/climate change assessments and adaptation, and outreach.

NSD + CGS Signature Project: Little Squalicum Estuary

The Little Squalicum Estuary project is the culmination of a 15-year effort to restore a portion of lost aquatic land to help recover salmon populations in Bellingham Bay. This highly popular project drew interest, input, and financial support from a wide range of agencies, as well as community groups and individuals. In addition to creating new habitat for aquatic species, it benefited residents, and visitors of Bellingham's Little Squalicum City Park. The \$6.1M project restored 4.85 total acres of coastal habitat, including a 2.4-acre estuary, and removed a fish passage barrier at the mouth of Little Squalicum Creek east of the Nooksack River Delta. It involved excavating the estuary, re-aligning the existing creek and park trails, installing native plants, and constructing two new pedestrian bridges, multiple new trails, and upgraded park facilities.

NSD + CGS Service Areas

- River and Stream Restoration
- Geomorphic Assessment
- Hydraulic/Hydrologic Modeling
- Flood and Erosion Hazard Assessment
- Fisheries Habitat Assessment & Restoration
- Logjam Design
- Culvert Assessment and Prioritization - Fish Passage
- Dam Removal
- Bank Stabilization & Bioengineering
- Shoreline/Estuary Restoration
- Natural Water Storage
- Stormwater Design and Treatment
- Climate Change Assessment
- Landscape Architecture, Restoration Ecology
- Riparian Forest Ecology
- Construction Administration
- Monitoring & Adaptive Management
- Wetland Delineation
- Wetland Functional Assessment, & Mitigation Planning
- Environmental State & Federal Regulations & Permitting
- Project Management
- Coastal Management