

Industry Mergers & Acquisitions - The Right Succession Plan for Your Business?

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For construction firm owners contemplating the future, mergers and acquisitions (M&A) within the sector represent a strategic succession planning option. An industry M&A can provide immediate liquidity and can maximize valuation by attracting strategic buyers willing to pay a premium for synergies. Unlike internal succession, which may involve leadership gaps or financing challenges, an M&A ensures business continuity with experienced operators. It also allows owners to capitalize on favorable market conditions and exit with a structured transition plan, reducing long-term operational risk. However, the process is complex, time-consuming, and can take years to execute properly. Owners may lose control over business decisions post-sale, especially in a full buyout. Additionally, earnouts or contingent payments can create uncertainty in realizing the full sale value.

Selling or merging a construction business requires careful planning to maximize valuation, ensure business continuity, and secure long-term stability for employees and clients. Success depends on early preparation, sound financial management, advice, and strategic deal structuring.

Setting Up for Success: Determining Business Value & Key Valuation Drivers

The first step in the process is evaluating the firm's financial picture. Buyers scrutinize a company's revenue trends, profitability, working capital, equity, and cash flow. Having a financial statement, preferably prepared by an accounting firm is critical. By analyzing their company's statements, they can identify areas to

improve in, plan to strengthen their balance sheet and enhance profitability and EBITDA- making them more valuable to a potential buyer.

Buyers assess several key factors when evaluating a construction firm. A well-documented backlog signals revenue stability, while strong client relationships and a history of repeat business increase market appeal. Market position and specialization also play a role, as firms with niche expertise in specialized areas and/or geographies potentially command higher valuations. Risk management and safety records are equally important, as buyers evaluate safety compliance and legal liabilities. Additionally, firms with well-structured leadership teams capable of operating independently are more attractive in the market.

Structuring a Seamless Transition: Leadership, Deal Terms, and Long-Term Planning

A transition plan must demonstrate leadership continuity beyond the current owners. Buyers want assurance that the business can run effectively post-sale. Investing in training and mentorship, delegating key responsibilities, and securing long-term commitments from critical employees can ease the transition. Buyers may look to secure employment contracts with key employees as part of a deal, especially in regard to senior leaders within a firm. Ensuring these leaders are kept happy during the transition period is essential for an uninterrupted continuation of business operations. Depending on the structure of the transaction, owners may have the opportunity to continue working in an advisory or leadership role post-sale, ensuring a smoother transition and preserving business relationships.

Deal structure has significant tax implications. Owners must weigh the benefits of a stock sale versus an asset sale, considering factors such as purchase price allocations and tax strategies like Qualified Small Business Stock (QSBS) exclusions. Entity type also plays a role, impacting tax treatment and transaction structuring. Some deals involve earnouts, where a portion of the sale price is contingent on future company performance, aligning seller and buyer interests. Additionally, owners can explore partial sales instead of full buyouts, retaining equity while bringing in new investment. This approach can allow gradual transition while maintaining some control over the business. Protecting family members involved in

the business is another key consideration, as structuring agreements to retain their roles or provide financial security can be part of the negotiation process.

Selling a business is a multi-step process that requires patience and preparation. The first stage is assembling financial records, legal documents, and marketing materials, including a comprehensive deal “book” that provides buyers with necessary financial and other information. This book should incorporate a company’s overarching value proposition, with selected financial, market niches and expertise, company leadership and other company/potential deal structure information. Once preparation is complete, sellers must engage potential buyers confidentially.

Negotiating favorable deal terms is key. A Letter of Intent (LOI) should be negotiated thoroughly, as it sets the framework for the final agreement. This includes payment structures and contingencies, which are essential before entering the due diligence phase during which financial records, contracts, compliance documents, and employment agreements are reviewed and disclosed. Finally, closing the deal requires finalizing agreements and executing the transition plan to ensure operational stability.

Common Pitfalls & How to Avoid Them

Many business owners overestimate their company’s value or wait too long to prepare for a sale. Ideally, planning should begin at a minimum of three years in advance. Having the right advisors: M&A specialists, legal counsel, and financial professionals, is crucial to avoiding costly missteps. Additionally, cultural and operational fit with the buyer is essential to maintaining business continuity and employee retention.

Selling a business or merging with another industry player isn’t just a financial decision, it’s an emotional one. Owners must be ready to transition, and that includes being prepared to walk away if an offer isn’t good enough.

Selling a construction firm as part of an exit strategy requires strategic foresight and disciplined preparation. By strengthening financials, assembling a leadership transition plan, engaging advisors early, and carefully structuring the deal, owners can maximize value while ensuring a smooth transition. A well-prepared sale or

merger can allow business owners to secure their legacy, protect their employees, and receive fair value for the business they worked so long to build.