

ALLEN BUSINESS ADVISORS

A GUIDE FOR ARCHITECTURE, ENGINEERING, AND LAND SURVEYING FIRM OWNERS

The Owner's Guide to Selling Your Firm to Your Employees

How the Step-Up Legacy Plan uses SBA bank financing to turn your key employees into owners, with as little as 5 percent down, and pay you at closing. (Not an ESOP)

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Why I wrote this guide

Over the next decade, a generation of architecture, engineering, and land surveying firm owners will leave their businesses. Some will sell well. Most will not. The difference is rarely the quality of the firm. It is whether the owner understood, early enough, how these deals actually get financed and closed.

I spent my banking career as a commercial loan officer before founding Allen Business Advisors, a boutique M&A advisory firm that works exclusively with A/E/LS firms. Everything in this guide comes from real transactions, real financing structures, and real outcomes. Closed deals like Roberts Engineering and G&H, not theory.

The core idea is simple to state. **Sell to your employees. SBA Bank financing is arranged with a 5% down payment. Get paid at closing. (Not an ESOP)** The rest of this guide explains exactly how that works, what the bank requires, what your firm is worth, and how to prepare over the next several years so the deal closes on your terms.

This guide is written for owners of A/E/LS firms with roughly \$1M to \$10M in revenue and 10 to 50 employees. If that is you, you are in the segment most succession advice ignores.

What you will get out of it

- Why most A/E firms never sell, and how to avoid being one of them
- Why ESOPs rarely fit firms under \$15 million in revenue, and what does
- How SBA 7(a) financing turns employees into buyers with as little as 5 percent down
- How banks value your firm, on historical cash flow, not projections
- A five to seven year roadmap you can start this quarter

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The Allen Business Advisors approach, in one sentence.

The Exit Problem Nobody Plans For

You have spent twenty or thirty years building a firm. Clients trust it. Employees built careers in it. It produces strong cash flow and carries your name or your reputation. And yet, when you start asking how to leave, the honest answer from most of the industry is silence.

The surveying and engineering professions are facing what NSPS has called a silver tsunami. Thousands of firm principals are approaching retirement at the same time, and most have no written succession plan. The result is predictable. Firms wind down instead of transitioning. Owners take pennies on the dollar from an acquirer who only wants the backlog. Or the owner simply keeps working because there is no obvious way out.

A business becomes sellable when it can operate without the owner. Strong management, a diversified client base, documented processes, and clean financials. Everything in this guide builds toward that.

Why A/E firms are harder to sell, and easier than you think

A/E/LS firms confuse generalist brokers. Project-based revenue, work in progress schedules, backlog, professional licensure, and client relationships that live in the principal's head. Most buyers and lenders do not know how to read any of it.

But the same traits make these firms excellent candidates for an internal sale. Most A/E firms are consistently profitable with predictable cash flow. Your key employees already hold the licenses, run the projects, and know the clients. The only thing they are missing is capital. And that, as Chapter 4 will show, is a solved problem.

10 to 50

Employees in the typical firm we transition. ESOPs were never built for this size.

\$1M to \$10M

Revenue range where an SBA-financed employee buyout works best.

3 to 6 mo.

Typical time from start to closing when selling to key employees.

Why the Usual Exit Paths Fail A/E Firms

When owners start researching exits, they find three standard answers. Each one fails most A/E firms, for reasons that are structural, not personal.

Path one: sell to an outside buyer

A third-party sale can work, and we run structured processes to outside buyers when an internal sale is not viable. But understand the tradeoffs. Outside buyers discount heavily for owner dependence and client concentration. The process typically takes 6 to 12 months, requires confidentiality the whole way, and frequently ends with your name on the door for a transition period while someone else rewrites the culture. For many owners, the number that survives due diligence is far below the number that started the conversation.

Path two: the seller-financed internal sale

This is the path most owners assume they are stuck with. You sell to your key employees and carry the note yourself, collecting payments over five to ten years. In plain terms, you become your employees' bank. Your retirement depends on the future performance of a firm you no longer control. So you hold on to governance rights, the buyers feel like they bought a job instead of a firm, and the relationship sours. We have watched this structure stall deals for years. It stalled Roberts Engineering for two of them, as you will see in Chapter 7.

Path three: the ESOP

Employee Stock Ownership Plans get enormous attention in the A/E press, and for large firms they can be a fit. For firms under roughly \$15 million in gross sales, the math rarely works.

- **Cost.** A traditional ESOP typically costs \$150,000 to \$300,000 or more to establish, plus meaningful annual administration, fiduciary oversight, and yearly valuations.
- **Deferred payout.** The seller is mostly paid over years as shares are repurchased, not in cash at closing.
- **Complexity.** An ESOP is a regulated retirement plan. You are not selling your firm so you can administer a trust.

The gap in the market is your firm

Put the three paths side by side and the problem is obvious. The outside sale pays you but costs you the legacy. The seller-financed sale preserves the legacy but turns you into a lender. The ESOP works beautifully, for firms two or three times your size.

That gap, profitable A/E/LS firms between \$1M and \$10M in revenue with capable successors and no financing structure, is exactly where Allen Business Advisors works. It is the segment the succession industry overlooks, and it is the segment where bank-financed employee buyouts close again and again.

THE PATH	WHAT IT PROMISES	WHERE IT BREAKS FOR A/E FIRMS
Outside buyer	Full exit, market price	Heavy discounts for owner dependence, 6 to 12 month process, culture rarely survives
Seller-financed internal sale	Legacy preserved	You become the bank for 5 to 10 years, control fights, retirement at risk
Traditional ESOP	Employee ownership	\$150,000 to \$300,000+ setup, ongoing compliance, deferred payout, built for firms over \$15M
Step-Up Legacy Plan	Employee ownership, paid at closing	Built precisely for firms with 10 to 50 employees. Chapter 3.

The right question is not “who will buy my firm?” It is “how do the people who already run my firm get financed to buy it?”

Answer the financing question and everything else, price, control, timing, and legacy, falls into place. That is the entire premise of the next chapter.

The Step-Up Legacy Plan

The Step-Up Legacy Plan is a bank-financed employee buyout designed for A/E/LS firms. Your key employees buy the firm with as little as 5 percent down. A bank funds the purchase through an SBA 7(a) loan. You receive 95 to 100 percent of your proceeds in cash at closing. There is no trust to administer, no annual compliance, and no seller note stretching across your retirement.

It is the ESOP alternative built for the firms ESOPs were never designed to serve.

- 1 We structure the deal**
Professional valuation, SBA financing setup, and legal documentation, prepared the way banks expect to see it. As former commercial loan officers, we package deals that credit committees approve.
- 2 Your employees bring as little as 5%**
SBA loans call for a 10 percent equity injection. It is often split 5 percent buyer and 5 percent seller, with personal guarantees, so the new owners have real skin in the game.
- 3 The bank funds the rest, you get paid at closing**
The bank provides the acquisition financing. You receive the substantial majority of your proceeds at closing while your employees repay the bank over time, from the firm's own cash flow.

With 10 percent employee equity, owners typically receive all proceeds at closing. With 5 percent employee equity, owners typically receive approximately 95 percent at closing, with the balance structured through a seller note or negotiated consideration.

Step-Up Legacy Plan vs. traditional ESOP

	STEP-UP LEGACY PLAN	TRADITIONAL ESOP
Firm size it fits	A/E and surveying firms up to roughly \$10M in revenue, with as few as 10 employees	Generally only makes sense above roughly \$15M in revenue
When the seller is paid	95 to 100 percent of proceeds in cash at closing	Mostly deferred, paid out over years as shares are repurchased
Employee capital required	Yes. Key employees invest 5 to 10 percent down	None. The trust acquires shares on the employees' behalf
Setup cost and complexity	A streamlined business sale, no six-figure setup bill	Typically \$150,000 or more to establish, plus annual administration
Ongoing compliance	None. No plan to administer once the deal closes	Ongoing fiduciary oversight and annual valuations

Why employee equity matters

Some owners hear “my employees put money in” and flinch. Do not. The down payment is a feature, not a bug. Buyers who invest their own capital, typically through a home equity loan, and sign personal guarantees behave like owners from day one. Banks know this, which is why they fund these deals. And with multiple buyers, each individual contribution shrinks.

Compare that to an ESOP, where employees receive shares without investing, or to a slow buy-in, where ownership dribbles across a decade. The Step-Up structure creates committed owners and a fully paid seller on the same afternoon.

You still achieve continuity, culture preservation, and liquidity. Without the headaches.

How the SBA Financing Actually Works

The SBA 7(a) program is the financial engine of the employee buyout. It exists precisely to help individuals purchase small businesses with low down payments and long repayment terms. Here is the structure, stated plainly and honestly.

The equity injection, without the marketing gloss

The SBA requires a 10 percent equity injection on a business acquisition. That is the rule. The reason you hear “as little as 5 percent down” is that the injection is often split, 5 percent from the buyer and 5 percent from the seller, with the seller’s portion structured as a standby seller note. When the buyers fund the full 10 percent themselves, the seller typically receives 100 percent of proceeds at closing. When the split is 5 and 5, the seller typically receives approximately 95 percent at closing, with the balance on the note.

10%

SBA equity injection, often split 5 percent buyer and 5 percent seller.

10 yr

Repayment term on acquisition loans keeps payments manageable.

P + 2.75

Most lenders price SBA 7(a) acquisition loans at Prime plus 2.75 percent.

\$10M

SBA financing can provide up to \$10,000,000 of the purchase price.

The company is the borrower

This is the point that unlocks most stalled internal sales. The loan is not a personal loan to your senior engineer. The business is the borrower, and business cash flow repays the loan. The buyers provide personal guarantees and must run the firm profitably, but they are not writing seven-figure personal checks. For a million dollars of firm value, a 5 percent injection is \$50,000, an amount a home equity line routinely covers, and one that multiple buyers can share.

One loan can cover the purchase price, goodwill, working capital for the new owners’ first year, and closing costs. The deal funds the transition, not just the transaction.

What the bank looks at, and the timeline

Historical cash flow, not projections

Banks analyze three years of tax returns and financial statements. They focus on proven, historical cash flow. They will not accept a discounted cash flow valuation, because it is built on projections. If your story depends on next year's growth, the bank is not listening. If your last three years show consistent profitability, the bank is leaning in.

The five Cs, applied to your buyers

- **Character.** The buyers' track record of meeting obligations and managing credit. Lenders generally prefer personal credit scores of 680 or higher.
- **Capacity.** Can the firm's cash flow cover the debt payments with room to spare?
- **Capital.** The equity injection. Skin in the game signals commitment.
- **Collateral.** The business itself. Under SBA policy, a collateral shortfall is not, by itself, a reason to deny the loan.
- **Conditions.** Loan purpose, the economy, and industry factors affecting repayment.

How long it takes

The SBA loan process runs 45 to 90 days, depending on how fast documentation moves and how experienced your advisor is. The full internal sale, from first engagement to closing, typically runs 3 to 6 months. Sellers should plan to stay about a year after closing, with hours decreasing over time, to hand off the responsibilities employees never saw: insurance, budgeting, banking relationships, and administration.

Sellers prefer SBA-financed deals for one simple reason. They get paid at closing rather than waiting on deferred installments.

What Your Firm Is Worth to a Bank

Owners usually carry two numbers in their head: the number a colleague claimed at a conference, and the number their retirement requires. Banks carry a third number, and the bank's number is the one that closes deals.

The rule of thumb

Value is based on the cash flow your business generates for the owner, the size of your firm, and the type of work you perform. A working rule of thumb for A/E/LS firms is **2 to 3 times Seller's Discretionary Earnings**, or **5 to 6 times EBITDA** for larger firms. A professional, independent valuation is strongly recommended before any internal conversation about price, because it does two jobs at once. It removes the seller's fear of leaving money on the table, and it gives the buyers a number they can actually underwrite with a lender.

What moves the number

- **Normalized earnings.** Owner compensation, one-time expenses, and add-backs, each one verified. Aggressive add-backs that do not survive underwriting kill deals.
- **Backlog.** Six to twelve months of signed, documented contracted revenue reads as durability. A thin or undocumented backlog reads as risk.
- **Client concentration.** Any client above 20 to 25 percent of revenue gets flagged. Diversification raises both price and approval odds.
- **Owner dependence.** If you sign every proposal and hold every client relationship, the bank sees a firm that may not survive your exit.

Banks will not accept the discounted cash flow method, because it is based on projections. Banks always look at historical cash flow. Plan your exit, and your valuation, accordingly.

What Lenders Underwrite, and What Kills Deals

Every SBA lender evaluating an A/E firm buyout runs the same core analysis. The institution varies, the five factors do not. Prepare for them years ahead and underwriting becomes a formality. Ignore them and the deal stalls in due diligence.

1

Debt service coverage ratio

The single most important number in the deal. Most lenders require a minimum DSCR of 1.25x: \$1.25 of available cash flow for every \$1.00 of annual debt service, calculated on normalized EBITDA.

2

Backlog and revenue visibility

A formal backlog report showing 6 to 12 months of signed contracts, active retainers, and purchase orders. A pipeline of prospects does not count.

3

Client concentration

Any single client above 20 to 25 percent of revenue draws scrutiny. Lenders do not expect zero concentration. They expect you to acknowledge it and show a plan.

4

Management continuity

Lenders evaluate the buyers as carefully as the business. Operational experience, client relationships, and the ability to win new work. Key-person risk in the departing owner is the flip side.

5

Clean financial documentation

Three years of returns and statements, project-level profitability, WIP schedules reconciled to the general ledger, and AR aging. Messy books reduce the loan amount, because undocumented financials signal undiscovered risk.

The four deal killers

Knowing what lenders want is half the picture. Knowing what makes them walk away is the other half. These are the patterns we see most often in A/E transactions that fail.

1. Add-backs that do not hold up

Sellers sometimes inflate EBITDA with aggressive adjustments. Lenders verify every single one. If your normalized earnings do not survive scrutiny, the valuation collapses and the deal follows.

2. Undisclosed liabilities

Pending litigation, environmental exposure, or unrecorded obligations that surface during due diligence do not just reprice the deal. They destroy lender confidence in everything else you disclosed.

3. Buyer equity shortfall

The 10 percent equity injection has to be demonstrated, whether the buyers fund it all or split it with the seller. If the buyers cannot show the funds, the file sits. This is solvable, home equity, multiple buyers, seller participation, but it must be solved before underwriting, not during.

4. Transition plan gaps

Lenders want a written operational plan. Who takes over client relationships? How long does the seller stay? What happens if key staff leave? A one-page answer to those questions, prepared early, is worth more than a hundred pages of projections.

The bank does not buy your story. It buys your cash flow, your contracts, and your management depth. Prepare for that reality early, and the deal closes on schedule.

Case Study: Roberts Engineering

The first conversation between the buyer and seller at Roberts Engineering, a 28-person A/E firm, happened more than two years before the deal closed. Both sides wanted it. The founder wanted to step back and cash out. His long-tenured senior engineer wanted to own the practice he had helped grow. And for 24 months, nothing moved.

The three blockers

- **Financing.** The buyer was a working engineer with real operational equity in the firm, but not the cash to purchase a 28-person practice. The only structure both sides had considered was seller financing.
- **Price.** The seller wanted retirement security. The buyer wanted a number the firm could repay from operating cash flow. Without an independent lens, those numbers never met.
- **Control.** The quiet killer. Because seller financing was assumed, the seller reasonably wanted governance rights until the note was paid. Ten years of post-close oversight is not a retirement. It is a second job.

What changed

Allen Business Advisors brought Roberts into a structured process, starting with an independent valuation. With a defensible number in hand, the deal moved to SBA-backed financing under the Step-Up Legacy Plan. The 7(a) loan funded three things, not one: the purchase, the working capital the new owner needed on day one, and the closing costs that would otherwise have eaten into the seller's check.

When a lender funds the transaction, the seller is paid at closing. Not in year five. Not on an earnout tied to earnings the seller no longer controls. At closing. The moment the seller's proceeds were no longer tied to the buyer's future performance, the control fight evaporated. The buyer got the firm. The seller got his retirement.

A seller who is fully paid at closing has nothing left to protect. The control question becomes a preference, not a fight.

Your Five to Seven Year Roadmap

The owners who get paid best are the ones who start earliest. Building management depth three to five years before the deal is the single highest-return succession move available to you. Here is the sequence we recommend.

Years 1 to 2: understand your options and build value

- Get an independent, professional valuation. Know the bank's number, not the conference number.
- Clean financials to audit-ready standards: project-level profitability, reconciled WIP, current AR aging.
- Start reducing owner dependence. Move client relationships and proposal signing to your senior people.
- Reduce any single-client concentration below 20 percent where possible.

Years 3 to 4: identify and develop your successors

- Pinpoint the key employees who will carry the firm forward. There can be more than one, and multiple buyers reduce each person's required investment.
- Give future buyers real P&L responsibility, client ownership, and business development experience.
- Document your backlog formally: signed contracts, retainers, renewal probabilities by client.
- Have the first structured ownership conversation. Done correctly, it removes the awkwardness, not the ambition.

Years 5 to 7: execute and close

- Engage SBA-experienced advisors to structure the deal and package it for lenders.
- Arrange the financing. Expect 45 to 90 days for the loan and 3 to 6 months start to close.
- Close, get paid, and plan roughly one year of decreasing involvement to transfer the owner's responsibilities.

Closer to retirement than year one? The roadmap compresses. Firms with clean books and capable successors have gone from first call to closing inside six months.

Questions Owners Ask

Do my employees really have the money to buy me out?

Most of the time, yes. Buyers typically access the down payment through a home equity loan, and there can be multiple buyers, which reduces what each one contributes. We also have other solutions to help buyers with the down payment. Remember, SBA financing is arranged with 5 to 10 percent down.

How much do I actually receive at closing?

The substantial majority of your proceeds. With 10 percent employee equity, owners typically receive all proceeds at closing. With 5 percent employee equity, approximately 95 percent at closing, with the balance structured through a seller note or negotiated consideration.

What if my firm is too small for this to work?

You may be surprised. The plan works best for firms with \$1M to \$8M in revenue and 10 to 50 employees, and it can work below that depending on profitability, client base, and staff experience.

Will I need to stay involved after the sale?

Yes, and you should want to. Your employees know their jobs, but someone has to teach them yours: insurance, budgeting, and administration. Plan on about a year, with hours decreasing until you are only on call.

Is this just an ESOP with different paperwork?

No. An ESOP is a regulated retirement plan with six-figure setup costs and ongoing compliance, where the seller is mostly paid over years. The Step-Up Legacy Plan is a straightforward business sale funded by a bank, with no plan to administer and the seller paid at closing.

What does it cost to find out if my firm qualifies?

A confidential conversation. We will look at your revenue, cash flow, and successor bench and tell you plainly whether the structure fits.

Next Steps

If you own an A/E/LS firm and you are starting to think seriously about your exit, the starting point is the same as it was for Roberts Engineering: an independent valuation and a real conversation about what an SBA-backed internal sale would look like for your firm, your people, and your timeline.

That conversation is confidential, it carries no obligation, and it will tell you more in thirty minutes than another year of reading articles.

About John R. Allen, III

John Allen is the Founder and Managing Partner of Allen Business Advisors, a boutique M&A advisory firm that specializes in ownership transitions for architecture, engineering, and land surveying firms across the country. A former commercial loan officer, John has over 20 years of experience in SBA acquisition financing, bank underwriting, and deal structuring. His firm created the Step-Up Legacy Plan, the bank-financed alternative to ESOPs that allows key employees to buy the company with as little as 5 percent down.

- Approved National Speaker, National Society of Professional Surveyors (NSPS)
- Featured on Surveyor Says! The NSPS Podcast
- Contributor to STRUCTURE Magazine and ACEC state association newsletters
- Closed transactions including Roberts Engineering, G&H, John W. Delano & Associates, and Cammett Engineering and Surveying

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This guide is for general information only and is not legal, tax, or investment advice. Deal structures, SBA program terms, and outcomes depend on the specifics of each firm and each lender's underwriting. Speak with qualified advisors before acting.

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