

substancearchitecture

An Evolving Practice: Substance Architecture



Learning Objectives

Part 1:

Firm History

Ownership Transition

1. Review of our history and goals for ownership transition.
2. Discuss options for ownership transition, what was right for us, and why.
3. Gain insights into maintaining a firm's vision and purpose through ownership transition.
4. Review the steps we're taking to evolve and prepare the next generation of leadership.

We believe good design is transformative.



Introduction



Josh Hemberger AIA LEED AP
Associate Principal



Leah Rudolphi AIA
Associate Principal

Substance Architecture works to bring beauty to utility, pulling from diverse expertise to find clarity in complex design challenges. By meaningfully engaging with our clients, we create spaces that go beyond mere function to capture a deeper sense of place and purpose. Our approach explores many versions of an idea, carefully editing it to find a solution that often feels intuitive.

We believe in less, but better.



INTRODUCTION

Substance Architecture is a client-focused design firm founded in 2005 in Des Moines, Iowa.

Today, our team comprises 18 skilled individuals committed to advancing the discipline in service to our clients.



Why Iowa?

Midwestern ethos

Hard work, community,
humbleness, close family ties,
doing what is right

Home to great design

Eliel Saarinen
I.M. Pei
Mies Van Der Rohe
Richard Meier
David Chipperfield
Renzo Piano

Clients who appreciate
good design

Advanced Manufacturing
Agriculture
Finance and Insurance
Education



SHARED VISION

Our studio: No private offices - we work in a single room and that will always be the case.

Every project is the product of many contributors, and we recognize that some of the most powerful training and mentorship opportunities occur during daily interactions with your co-workers.



SHARED VISION

Our portfolio includes:

- Athletics
- Civic/Government
- Higher Education
- Hospitality
- Master Planning
- Mixed-Use
- Renovation
- Residential
- Transit
- Workplace



University of Iowa Hansen Football Performance Center / Iowa City, IA



Iowa State University East Gateway Pedestrian Bridge / Ames, IA



Fox Creek Park Shelter / Waukee, IA



Principal Riverwalk Pavilion and Pump Station / Des Moines, IA



The Tree House Apartments Renovation / Des Moines, IA



Mevorach Studio Addition / Des Moines, IA



DART Central Station / Des Moines, IA

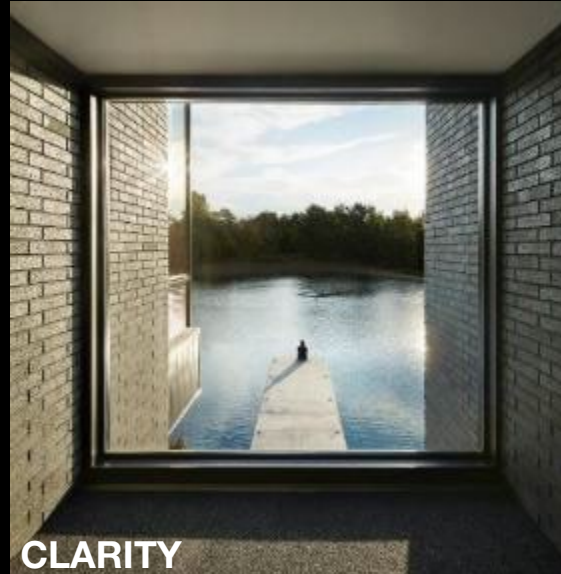


Lely North America Office, Training Center, and Warehouse / Pella, IA



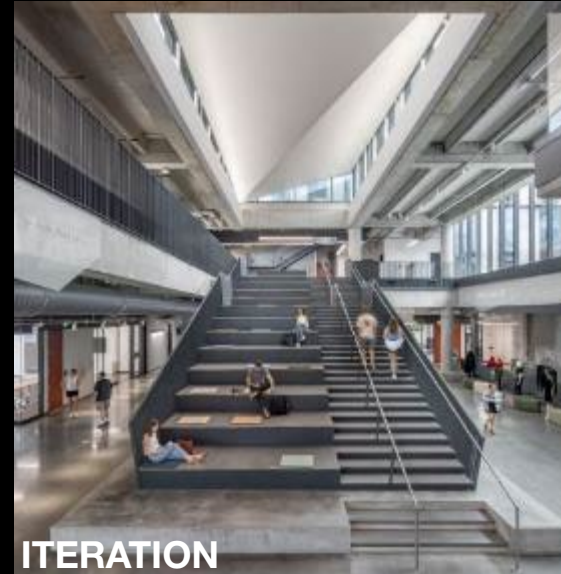
Federal Home Loan Bank & 909 Locust / Des Moines, IA

Guiding Principles



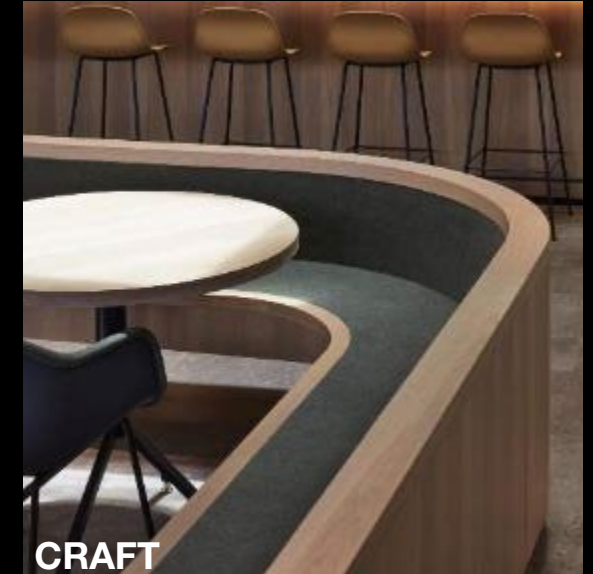
CLARITY

We believe in less, but better



ITERATION

We explore many versions of an idea until a solution feels intuitive



CRAFT

We bring beauty to utility



PLACE

We create spaces that go beyond mere function to capture a deeper sense of place and purpose



COLLABORATION

Teamwork and collaboration are at our core



STEWARDSHIP

Of the environment and its people

PART ONE: Firm Evolution



HISTORY

Firm History

- HLKB
- Des Moines, Iowa
- Founded in 1961
- 2001 AIA Firm of the Year



History

2005:
Original
Partnership



Bill Anderson FAIA
Jason Alread AIA
Tim Hickman AIA
Paul Mankins FAIA
Todd Garner AIA

2008:
Restructured



Tim Hickman AIA
Paul Mankins FAIA
Todd Garner AIA

2022:
Reimagined



Todd Garner AIA
David Gosnell AIA
Kevin Wagner AIA
Leah Rudolphi AIA
Tim Hickman AIA
Josh Hemberger AIA

FIRM EVOLUTION

Ownership Transition

A Turning Point



Ownership Transition

Options



Close the doors



Sell to a larger firm



Form an ESOP



Transition ownership internally

Goals

Ownership Transition

- Substance ownership will be transferred internally
- Focus on core mission and markets
- Allow for ongoing ownership transition

2022 Strategic Plan

Three Primary Topics

1) Markets, Marketing , and Business Development

- Proactively focus on our primary markets
- Reactively respond to secondary markets
- Continue a Midwest regional presence for our work

2) People, Culture, and Communication

- Foster a culture of collaboration and learning, and a passion for design
- Provide mentoring and guidance for staff
- To maintain our culture, have a staff of no more than 30

3) Leadership, Management, and Ownership

- Have clear definitions of leadership, management, and ownership
- Provide clear opportunities for career advancement
- Begin ownership transition

Levels of Ownership

Associate

0% - 5%

Commitment to the firm's interests above individuals' interests

Strong desire to see others succeed and participate in their success

Ability to think strategically about the future

Ability to represent the firm

Effectively delegates

Commitment to nurture other staff members

Associate Principal

6% - 12%

Strong history of client satisfaction

Strong contributions to firm's ongoing profitability

Ability to market firm to clients, consultants, public and prospective staff

Ability to close sales

Ability to motivate other staff

Innovative and Visionary

Grit, willingness to persevere, do whatever it takes

Tolerance for and willingness to assume significant risks

Principal

12.5% - 25% (max)

Transition Schedule 2023

Lawyers



Legal review of Term letters

Term | Offer Letters Distributed March 31

Operating Agreement revisions reviewed (Tim/Todd/Legal)

Ongoing due diligence

Transition Schedule 2023

Operating Agreement

- Managers vs Members
- Start selling shares at age 60, out of ownership at age 65
- Unit transfer Methodology
- Owners vote on share transfers, project pursuits, staffing decisions



Legal review of Term letters

Term | Offer Letters Distributed March 31

Operating Agreement revisions reviewed (Tim/Todd/Legal)

Ongoing due diligence

Term | Offer Letters accepted or not accepted (April 15, 2023)

For those accepting ownership offers.

Operating Agreement revisions reviewed

Financials reviewed

Legal matters ongoing

Ongoing due diligence

Transition Schedule 2023

Even More Lawyers

Substance, LLC is owned by six S-Corps and one LLC



Transition Schedule 2023

First sale of shares:
August 2023



Transition Schedule 2023

Big News

- Announced the new ownership to staff
- Issued a press release and social media rollout



Final Thoughts

Where did we go right

- There's a path for bringing in new owners gradually
- No second mortgages needed
- More shared responsibility for getting new work
- Time to learn the ropes
- Ability to divide and conquer w/ respect for firm management responsibilities
- Restating the Firm's Operating Agreement
- Transferring units before retirement

Final Thoughts

What were the challenges

- Several people left the office
- Lots of voices and lawyers at the table
- Balance daily roles
- Some habits are hard to overcome
- Changing valuation methodologies + transitioning ownership + having large office expenses
- Gaining Trust

Ongoing Evolution

Final Thoughts

- Elevated individuals to Associate and will begin discussions of ownership with those individuals
- Revisiting our valuation methodology
- Lots of voices and lawyers at the table
- Continue to transition client relationships
- Grow our market sectors and internal operations
- Mentorship program kickoff

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FIRM EVOLUTION

Q & A

