

Focus on risk management...

A/E Mergers & Acquisitions

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M&A Drivers & Considerations

There are many reasons and drivers for M&A activity. With slow economic conditions, consolidation in any industry is a usual trend. A common theme currently within the A/E industry is transactions are being driven by a desire for service diversification and merging or acquiring another firm to become a more “full service” provider for clients addressing a full array of project services.

Great care and consideration is needed when merging, selling or acquiring another firm. How a firm appears on paper and how they are in practice can vary greatly. If proper and complete due diligence is not performed, a firm can significantly decrease their ability to perform services in a quality manner that in return dramatically increases risk.

There are many reasons why architect and engineering firms would sell or buy another firm:

Why Sell:

- Maintain continuity that preserves client relations
- Growth strategy
- Gain financial return on firm investments
- Induce key people to stay with the firm
- Gain financial security before retirement
- Avoid the difficulty of closing down a multi-client, multi-project practice

Why Buy:

- Access to new geographic areas
- Alternative to recruiting
- Access to new clients
- Alternative to cold starting an office
- New or complementary services
- Increased career opportunities; creating a broader platform for managers to expand and excel
- Add management talent

Well Planned M&A's Mitigates Risk

Mergers and acquisitions (M&A) activity come in waves based on market conditions and economic drivers. Well-planned M&A deals that are executed effectively can be excellent tools for transitions and strategic growth. However, if not done correctly, they can dramatically impact a firm's performance as well as significantly increase risk.



Key Recommendations:

- **Get Your Broker and Underwriter Involved:** Getting your broker and insurance carrier involved early will help the process by identifying various options regarding the liabilities and insurance coverage's.
- **Conduct a Risk Assessment:** Obtain a better understanding of the firm in key categories of risk and liability as well as practices and operations for managing risk through a risk assessment. A risk assessment should also evaluate past claims and lessons learned incorporated into the firm's operation to help avoid reoccurrence.
- **Understand the Culture:** Take a good look at the culture of the firm, including attitudes, work styles and philosophy. It is essential to observe work patterns up close and personal, and address any yellow flags up front. An incompatible culture is a sign of trouble and should be a deal breaker.
- **Know Your Potential Partner:** Understand the assets, liabilities, claim history, expertise, intellectual capital and customer list that the merger or acquisition partner brings to the table – does the deal make sense financially, strategically and from a risk standpoint.
- **Don't Skip on Due Diligence:** Spend the required time – often 90 days or more – poring over the potential partner's finances, legal and compliance records, HR practices, IT systems and more.
- **Make Sure you Have the Valuation Right:** Examine cash flow, P&L statements, project backlogs, billings and client lists, current and past claims and costs.
- **Frame a Sound Agreement:** It is important to look beyond the basics. An agreement must cover exit strategies for principals, contingencies clauses, severance policies and a host of other issues.
- **Integrate Companies and Systems:** Pay and benefits, job titles and organizational charts, work-flow and IT systems all are key elements of building a successful enterprise.
- **Monitor Performance and Make Necessary Adjustments:** Keep an eye on key metrics and business practices and understand where to make tweaks and changes.

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This article is provided by Risk Management Committee member **David Shipley, Shipley & Associates, Inc.** Shipley & Associates specializes in insurance and risk management services for the engineer and architect.

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