

After the Sale: Acquisitions and the Art of Integration

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Acquisitions have always been a means to maximize value and create a sustainable competitive advantage for E&C firms. However, acquisitions of any size are a major undertaking for both the acquirer and the target. Substantial financial returns are required not only to create stockholder value, but also to justify the enormous investment of managerial time and effort that goes into a takeover. A handful of E&C firms have been active and masterful acquirers; putting these firms aside, acquisition results for the masses have been mixed. Often, the rationale is flawed, or the post-acquisition strategy ill-executed in cases where the strategic relationship does not last. Acquisition fever, failure to recognize the costs of an acquisition, or a flawed understanding of the target company has derailed many plans for expansion.

Within the E&C industry, acquisitions are a vital driver of competition and growth among varied players. However, the post-acquisition strategy of each can differ significantly. At one end of the spectrum, the parent company allows the acquired firm to operate entirely as an independent subsidiary – we term these ‘operators.’ At the opposite end, the parent company works to fully integrate the culture and processes of the acquired firm into their own, effectively expanding the parent company – typically known as an ‘integrator.’ While either strategy will work, it is important to note that successful acquirers make a very conscious decision about where their strategy falls on the operator-integrator spectrum. They are successful acquirers because they have a defined acquisition integration strategy. Over time, as the size, sophistication and footprint of the firms evolve, the ‘integrator’ approach most often seems to emerge.

In service-based industries like engineering and construction, the key commodities being “purchased” in an acquisition include fragile intangibles like customer relationships, the leadership team, operational knowledge, and culture. A mishandled integration process can diminish or eliminate stockholder value and erode an organization’s culture and talent.

FMI spoke with executives and acquisition experts at several leading E&C firms, including Skanska, ARCADIS, Jacobs, EMCOR and Comfort Systems, who have achieved large-scale growth and determined the finer points of acquisition and integration management. The following case studies present how these companies have successfully evolved and grown over time and created a distinct brand in the market place.

Skanska

In 1887, the Aktiebolaget Skånska Cementgjuteriet concrete company was formed in Sweden; the origin of what has grown into today’s multinational project development and construction powerhouse, Skanska. Having entered South American, African and Asian markets in the mid-twentieth century, Skanska expanded to the U.S. in 1971. Today, the U.S. comprises Skanska’s largest market. So how did a small Swedish concrete company grow to be one of the top 10 project development and construction companies in the world? The answer is through a clever mix of organic growth and opportunistic acquisitions.

“It’s very natural to want to do things the way you did things, so you can’t go in there and say ‘This is the way it’s going to be,’ because you’re going to lose a lot of good people that way.”

Michael McNally,
CEO and President,
Skanska

“We will either grow organically or through acquisition to have a strong presence in the major cities in the U.S.,” says McNally. “If we’re not there now, we want to be.”

Michael McNally,
CEO and President,
Skanska

Acquisition philosophy

Skanska USA initially treated acquisitions as enlightened portfolio additions, purchasing promising companies between 1981 and 2002, and helping to grow the firms and their leadership with minimal interference. Central operations were threadbare, with a president and consolidating CFO overseeing the Skanska USA headquarters but all overhead and support functions handled by the subsidiaries.

Lacking a strong presence and brand recognition in the U.S., Skanska started out co-branding their acquisitions, introducing Slattery Skanska, Gottlieb Skanska, Yeager Skanska, and so on to its customers and the U.S. construction market, and leveraging the strong local relationships of the acquired companies. The successful growth of portfolio companies led to infringement upon each other’s markets, and brand confusion among customers.

In 2002, the parent company moved to fully integrate the subsidiaries under one name. Two business units, Skanska USA Civil and Skanska USA Building, were created. The company worked to maximize economy of scale by consolidating support services, reducing 45 enterprise servers to five, and 15 estimating platforms to one, for example. Consolidation of central functions was the major turning point for Skanska integration policy, and the organization has since demonstrated high profitability through its current model of unified but decentralized arms in diverse geographies.

Although acquisitions drove the metamorphosis of the Skanska brand, each was chosen carefully in terms of risk – Skanska favors low-risk companies that will earn back their cost quickly – customer relationships, and a good cultural match with Skanska. Says CEO and president, Michael McNally, “Target companies have to be well run, have a very good reputation in their community, and a history of excellence, but ethics and safety are the two big things.”

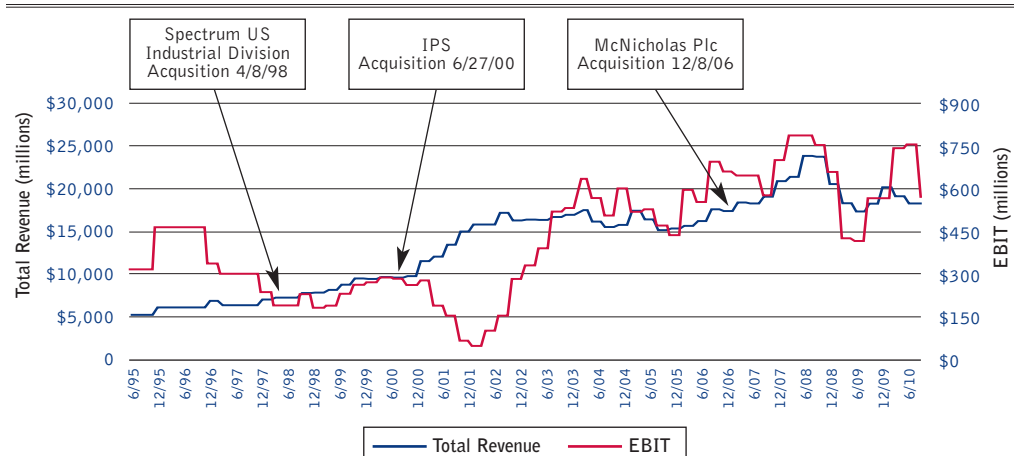
According to McNally, safety discussions were an issue around which subsidiaries coalesced, and which provided the impetus for a leap to uniformity and teamwork. McNally adds, “When we started to push the safety culture of the company – that you care about everybody on your team – that message resonated with everyone. Everybody started to

Exhibit 1a: Skanska Major Acquisitions

Target	Date	Transaction Value (\$ in millions)
McNicholas Plc	12/8/06	\$98
IPS	6/27/00	\$64
Spectrum Construction ¹	4/8/98	\$55

¹U.S. Industrial Construction Division

Exhibit 1b: Skanska Historical Total Revenue vs EBIT (June 1995 to June 2010)



“The day comes when okay, January 1, we’re all Skanska, and you’ve already reached that tipping point: you’re already on the same computer platforms, accounting platforms, and by then we had transitioned the local community to understand that the old company that they knew and liked was now Skanska.”

Michael McNally,
CEO and President,
Skanska

become proud of whom they worked with both on a national and international basis, and in a sense, it provided the glue to help advance the cultural match. People looked at how they were the same instead of how they were different.” Over time, everyone realized the benefit and power in working together and a strong cultural fit pushed the separate companies naturally toward integration. During the official integration process, town hall meetings were held and constant communication reassured employees of the promise of the new, global brand. Clients took one-on-one meetings with leadership where the largely cosmetic name change was explained, and local relationships preserved.

During the due diligence process, Skanska teams typically scrutinize the financial track record and cultural values of the target company. Once they decide to move forward with an acquisition, the process is not standardized. “You have the vision of the path, but in terms of how it is going to work, you don’t have the timing,” says McNally. “You don’t know how these individuals are going to react, you’ve barely done due diligence for a month or two.” For this reason, retention of key leadership is vital to a deal. “Our intention is absolutely to keep the leadership team; we’re buying the people, we’re buying those skills, that reputation that those people created,” McNally comments, invoking patience as critical to a successful integration.

The Skanska brand

Since 2002, the acquisition machinery has slowed at Skanska, the company focusing on integrating all subsidiaries and asserting its market position across the geographies it entered. Today, the one-name Skanska brand is strong, with high recognition within the U.S and abroad. The natural progression from such a market position is to “fill” geographies not yet reached. “We will either grow organically or through acquisition to have a strong presence in the major cities in the U.S.,” says McNally. “If we’re not there now, we want to be.”

McNally casts five years as a practical time frame within which to integrate a new company and its brand. With the previous wave of subsidiaries completely integrated into Skanska Civil and Skanska Building, the company is ripe for more acquisition activity. “We understand the integration process because we’ve all lived it; everybody here at Skanska was part of it, so we think we have that figured out, but it’s time to look for new companies who we think would fit with our model, and it’s slow because we’re picky,” McNally notes.

Skanska

Key acquisition success strategies

- Selection of companies with a robust financial history at a price that they will earn back quickly. Cultural match and strong reputation are key selection factors, too.
- Organic transition over a longer time period (up to five years).
- Safety is a banner issue for Skanska and one that unites the company.
- Slow acquisition pace – Skanska scopes out companies carefully, with an eye on cultural clues and strong leadership.
- Acquisitions were initially co-branded. When the Skanska name outgrew the subsidiaries, they were integrated.

Challenges

- A loss of local identity; the emotional attachment to the old company names and their individual histories.
- Team members not leveraging shared resources and knowledge; competing rather than collaborating.
- Upper leadership from an acquired company may decide they don’t want to work for someone else.
- Establishing brand recognition with no prior presence in a market (not a problem today).
- Patience as differing practices are streamlined.

Over time, EMCOR has evolved into an integrated services firm. Its acquisition strategy has allowed the company to broaden its services, branch out into new geographical areas and move into new market sectors.

EMCOR Group, Inc.

EMCOR started out in 1966 as the Jamaica Water Supply Company, a regulated water utility serving parts of Queens and Nassau County, Long Island, N.Y. Between 1966 and the early 1990s, the company expanded by acquiring several companies primarily engaged in the electrical and mechanical contracting business. During the 1980s, the company experienced unprecedented growth and was ultimately forced into a Chapter 11 proceeding in 1994, partly due to the huge debt accumulated during the boom years of acquisition. New management took over and implemented strong processes and disciplines at the end of 1994.

In 1995, the company changed its name to EMCOR Group, Inc. – a hybrid of “electrical” and “mechanical” – to emphasize its signature services. EMCOR judiciously made acquisitions, not overpaying, and continued to grow steadily, reaping the benefits of its new, leaner business structure. In early 2000, as many of the roll-ups failed, EMCOR was able to acquire selectively, using its strengthened balance sheet and well-tested, successful integration process.

Today, EMCOR, a Fortune 500 company with 2009 revenues of \$5.5 billion, is a global leader in mechanical and electrical construction, energy infrastructure, and facilities services. EMCOR operations include over 75 subsidiary companies and 170 locations across the U.S., Canada, and the U.K. A diverse range of 26,000 employees comprises the “World’s Most Admired” and “Best Managed” company in the engineering and construction industry, as named by leading business publications.

Acquisition philosophy

Over time, EMCOR has evolved into an integrated services firm. Its acquisition strategy has allowed the company to broaden its services, branch out into new geographical areas and move into new market sectors. According to Tony Guzzi, president and COO of EMCOR, “We like to buy the number one or number two firm in any given market. If we buy the number two, we like to make it a strong contender to the number one. We don’t like to buy fixer-uppers, and we almost never buy something in a market we’re already in.” Additionally, “We buy businesses in markets and with customers that we understand and know.”

EMCOR’s acquisitions frequently rise out of existing relationships between EMCOR and its target companies. “We’ve typically had the most success when we’ve had a long-term dialogue with the company we’re going to acquire – it’s something we’ve been looking at for a long time – or it’s a company that considers EMCOR the preferred place for it to end up,” adds Guzzi. Key to this process is a thorough evaluation of the management team to make sure cultural aspects and core values align with those of EMCOR.

Once a company is judged as a good acquisition candidate, the leadership teams of both companies get together to discuss what will and will not change post-acquisition. These discussions typically center on big items such as pricing and customer strategies, and collaborative approaches between the two leadership teams. “We buy a company because it is a strong performer and because we respect that its leadership knows what they are doing,” says Guzzi of his company’s willingness to preserve elements of the acquired company. “EMCOR’s integration style is based on confidence in the management of the new company and its culture, and involves a measured integration of its culture into ours, showing discipline as we alter certain elements. We never look for the shock treatment,” explains Guzzi.

“We’ve typically had the most success when we’ve had a long-term dialogue with the company we’re going to acquire – it’s something we’ve been looking at for a long time – or it’s a company that considers EMCOR the preferred place for it to end up.”

Tony Guzzi,
President and COO,
EMCOR

Post-acquisition, EMCOR assigns corporate staff and key business unit managers to facilitate the integration process, and ensure the newly acquired company’s infrastructure and administrative functions are compatible with EMCOR’s accounting systems, insurance and benefits programs, as well as other support functions. Guzzi summarizes some of the key elements for a successful acquisition/integration as follows:

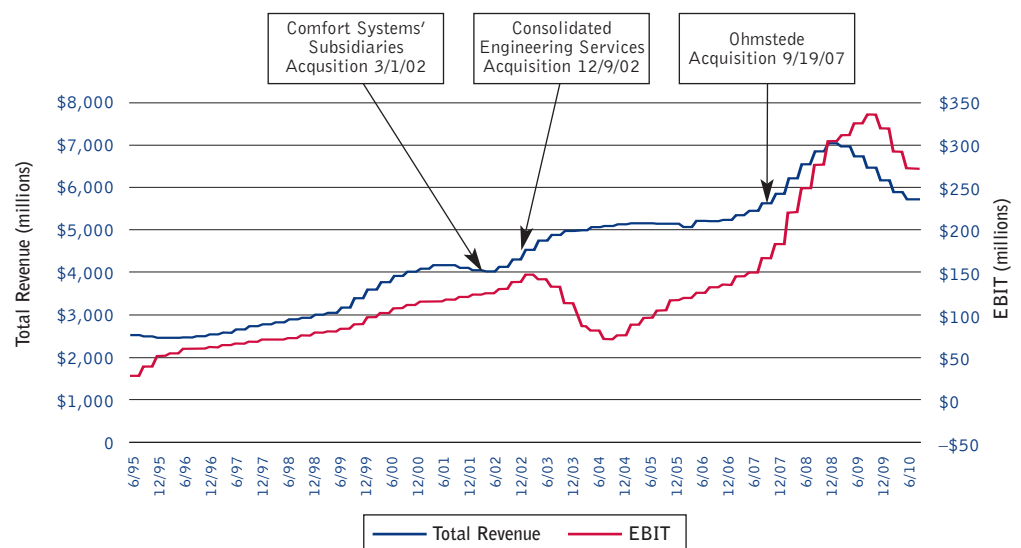
1. Have a strong rationale for buying a company.
2. Understand the strengths of your acquisition candidate. Look for where you can add value.
3. Be very direct in upfront conversations about what is going to change and what is not.
4. Give people the opportunity to control their destiny on how they earn money – do not make compensation arbitrary or tied to a fictitious budget.
5. Communicate clearly. We do everything from town hall meetings to high-level strategizing with the acquired company’s management by our side.
6. Protect our investment through employment and non-compete agreements.
7. Give people incentive to work hard and earn money (tied to performance). Make the metrics clear and easy to understand.
8. Do what you say you are going to do. Make sure you are respectful about the things that are most important to the employees of the acquired company, but at the same time, make sure they are respectful of EMCOR’s best practices.
9. Integrate into the organization through peer groups so that the acquired company is close to the issues it faces every day and can see the value of the EMCOR team.

Exhibit 2a: EMCOR Major Acquisitions

Target	Date	Transaction Value (\$ in millions)
Ohmstede Ltd.	9/19/07	\$455
Comfort Systems' Subsidiaries ¹	3/1/02	\$187
Consolidated Engineering Services	12/19/02	\$178

¹19 U.S. Subsidiaries of Comfort Systems USA

Exhibit 2b: EMCOR Historical Total Revenue vs EBIT (June 1995 to June 2010)



“We have integration best practices, manuals, and checklists, but at the end of the day, it’s an art more than a science ... because you’re bringing together two significant and different cultures – and it takes a lot of work to make one plus one equal more than two.”

Tony Guzzi,
President and COO,
EMCOR

The EMCOR brand

The name change to “EMCOR” signified the company’s commitment to becoming a leader in the U.S. (and beyond) in mechanical and electrical construction, energy infrastructure, and facilities services. As EMCOR has expanded and solidified its presence as a global leader, it has co-branded new acquisitions with the EMCOR name and helped them leverage the brand to garner additional strength in the local markets where strategy, marketing, communications, and public relations can be tailored to the local operating company needs in order to best suit customer demands. “We have developed a win-win scenario that represents the best of both worlds – where the strong, national EMCOR brand has a presence in each market, but so, too, do the local company names continue to exist, market by market, often positioned next to the EMCOR brand,” adds Guzzi.

EMCOR

Key acquisition success strategies

- To gain the most value from acquired companies, recognize the knowledge of the processes and the local markets that the acquired company’s management brings to the transaction.
- Service companies are more fragile during integration (vs. product-based companies, of which EMCOR has none).
- Following a successful, large-scale acquisition that opens the door to a new market or geography, consider add-on acquisitions to help solidify your position within that new market.
- Corporate communications that come from leadership of both the acquired and the parent company reinforce the notion that change is positive.

Challenges

- Don’t overpay.
- If poor performance follows an acquisition, determine whether it is due to business factors (e.g. management), or market factors (external environment).
- Don’t integrate hastily.

“As a professional services company, we rely entirely upon our workforce, and that makes us a company that has to look at acquisitions differently than people outside our industry, for example, in the manufacturing industry.”

John McLachlan,
Senior Vice President of
Strategy and Acquisitions,
Jacobs

Jacobs

Founded in 1947, Jacobs grew from a small private company of 20 people in 1956 to a public company of more than 50,000 employees, with 160 offices in more than 20 countries, and \$11.5 billion in revenue in 2009. The hallmarks of such growth have been a sustained emphasis on targeted acquisitions, and a certain plasticity of the brand name as it grew and evolved.

Through the 1990s, Jacobs used acquisitions to expand its presence in North America, the United Kingdom, mainland Europe, the Middle East, India, Australia, Africa, and Asia. In recent years, acquisition of Babbie Group Ltd. (2004), Techna-West Engineering Ltd. (2006), W.H. Linder Company (2006), Edwards and Kelcey, Inc. (2007), John F. Brown Company (2007), Carter & Burgess (2007), TYBRIN (2009), and Jordan, Jones and Goulding, Inc. (2010) have served to strengthen Jacobs’ position in Europe and North America, and generally in the infrastructure sector.

Being a relationship-based company is one of Jacobs’ fundamental business values. Jacobs has taken advantage of increasingly variegated demands from long-term clients to find solutions beyond the realm of their typical business. This willingness to adapt and deliver has driven growth of the company.

Exhibit 3a: Jacobs Major Acquisitions

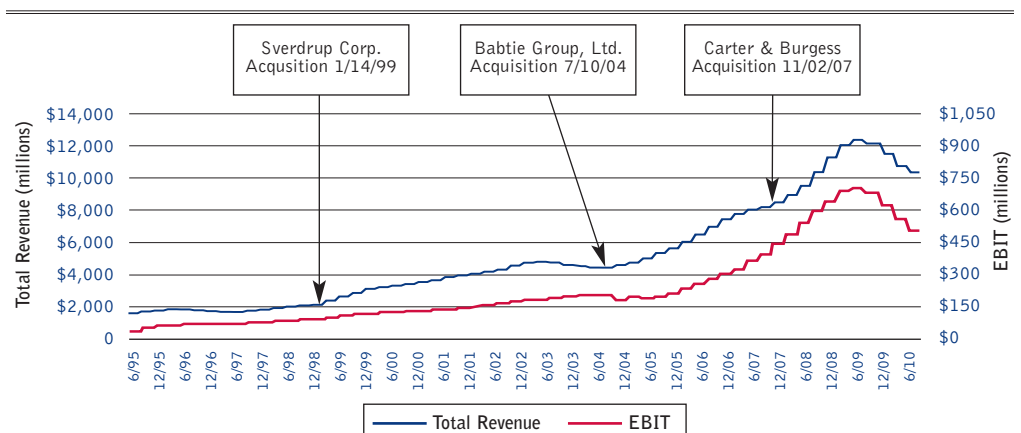
Target	Date	Transaction Value (\$ in millions)
Carter & Burgess, Inc.	11/2/07	\$234
Babbie Group, Ltd.	7/10/04	\$170
Sverdrup Corp.	1/14/99	\$219

Acquisition philosophy

Over the years, Jacobs has achieved a remarkable record of stable growth of earnings in the E&C industry (see Exhibit 3b). The company aims to grow by 15 percent each year; a growth rate maintained over the life of the company, and a third of which is attributed to acquisitions by company leadership. Furthermore, Jacobs avoids one-time business, and 85 percent of backlog is cost-plus contracts. The business model remains simple: focus on providing the best value for customers and maintain long-term customer relationships.

Viewed as a sleek outfit by the outside world, Jacobs’ constant expansion is steered by a management team with talent for choosing target acquisitions, and maximizing the value of those companies through integration. The act of acquiring firms has served to sharpen Jacobs’ awareness of “who we are,” according to John McLachlan, senior vice president of strategy and acquisitions for Jacobs. Private companies of small to medium size who demonstrate a high ethical standard and hold a favorable position in a strategic market are likely targets for acquisition. After perfunctory factors like financial performance and ownership structure have been accounted for, Jacobs pays close attention to the cultural fit of the target company. McLachlan explains that as a

Exhibit 3b: Jacobs Historical Total Revenue vs EBIT (June 1995 to June 2010)



“The first thing is to realize that you have to put yourself in the position of the target, because what they might find important, you may not. If you put yourself in their position, you would want to know ‘will my life be better, the same or worse?’ It cannot be worse as far as we’re concerned; being the same is a poor choice; we want them to feel it will be better for them either in the short or long term.”

John McLachlan,
Senior Vice President of
Strategy and Acquisitions,
Jacobs

professional services company they rely entirely on the workforce, which makes them have to look at acquisitions differently than in the manufacturing sector, for example.

Jacobs is rarely assisted by bankers when evaluating a potential acquisition, because competing against other bidders for a company limits the interface between the target company and Jacobs’ leadership. McLachlan explains that developing relationships with the target company’s management team is critical to the success of a potential deal.

An unsuccessful acquisition many years ago of a lump sum contractor taught Jacobs to seek only highly compatible firms. “A big part of due diligence is checking that there is a cultural compatibility,” says CFO John Prosser. “We’ve turned away from potential acquisitions because we didn’t feel there was a cultural fit or the operations were too transactional.” He adds, “One of the challenges is realizing what is important to the target company. If it’s a privately held company or an ESOP, that kind of ownership typically presents a different set of challenges to a shareholder or privately owned company.”

Although many acquisitions are initially co-branded with Jacobs, all will ultimately be integrated and operate under the Jacobs name. The Jacobs integration process begins prior to due diligence, where issues affecting both companies are discussed in a series of small meetings between leadership. During this period, both management teams are evaluating cultural fit and business model compatibility. Then Jacobs conducts a “mini due diligence,” which involves a small team who take a more in-depth look at ethics and compliance with applicable laws and regulations such as the Foreign Corrupt Practices Act (FCPA) and Federal Acquisition Regulations (FAR) within the company. During due diligence, teams formed from the greater Jacobs outfit – from divisions who do not have a stake in the acquisition – evaluate the acquisition, the team, and also start forming ideas around how the new company might be integrated and organizationally structured. In a next step, integration teams are formed from personnel of both companies in each department (e.g., operations, IT, sales, HR, accounting) to co-develop integration plans and schedules whereby all support services are transitioned to the internal, centralized Jacobs system.

The Jacobs brand

Strong, long-term relationships with clients have been the lynchpin of Jacobs’ growth. “As we’ve grown and diversified our markets and geography, the brand has had to adapt to being much more diversified,” explains Prosser. “But the real strength of the brand is in our integrity, our relationship model with our customers, and gets down to our core values that people are our greatest asset, and growth is an imperative, and we build long-term relationships with our customers.”

A global presence is part of the Jacobs image, although the company has been reluctant to buy into foreign markets with perceived and known corruption or bribery issues, reinforcing Jacobs’ emphasis on integrity and ethical conduct. Continued expansion across the globe is a part of the Jacobs plan, according to Prosser.

Jacobs

Key acquisition success strategies

- Put yourself in shoes of target company – what issues are important to them?
- Start talking about cultural issues early on.
- Look for management, operational and ethical fit.
- Keep due diligence teams impartial to the acquisition – don’t involve employees who have a vested interest.
- Allow clients to decide when the Jacobs name should replace the name of the acquired company.

Challenges

- Different ownership structures can pose a challenge to integration.
- Competition for an acquisition can compromise a company’s evaluation of the target.
- Adapting the brand as the company grows; meeting the needs of diverse geographies with a single brand.

“The strength of Comfort Systems USA is the local operations. The presidents operate in largely an autonomous fashion. They know their markets the best. Many are the same people who were operating the companies ten years ago. We also have very strong regional vice presidents who work with the companies.”

Bill Murdy,
Chairman and CEO,
Comfort Systems USA

Comfort Systems USA

Comfort Systems USA (CSUSA) Inc. was founded in 1997 to become the leading single-source, nationwide provider of comprehensive HVAC installation services and maintenance, repair, and replacement of HVAC systems for commercial and industrial customers. The company went public in June 1997 with 12 operating companies and combined revenue of approximately \$167 million. Today, Comfort Systems USA has more than 75 operating locations across the United States, 7,000 employees and over \$1 billion in annualized revenue (2009).

Acquisition philosophy

Comfort Systems USA is one of the few companies that survived the roll-up craze of the mid-to-late 1990s. At the time, investors became interested in construction roll-ups for several reasons, including:

- They had seen them work before in other industries
- Like other roll-up industries, the construction market was fragmented
- Privately held, illiquid construction companies were valued cheaply compared to their perceived value on the open market
- The cost savings to be achieved through economies of scale were thought to be significant (and intended to accrue primarily to the consolidator)

The roll-ups that were successful during this period seemed to place more emphasis on acquiring businesses that were operationally strong and displayed a cultural fit, as opposed to focusing on growth exclusively. Comfort Systems USA has outlasted the other three original publicly traded HVAC consolidators; at the peak of acquisition activity, the company consolidated 119 companies in two years, pushing revenues to \$1.6 billion. “We created a tremendous amount of debt to fund those acquisitions,” explains Bill Murdy, chairman and CEO of Comfort Systems USA. “By mid-2000 we were heavily leveraged with \$346 million in debt and the company had run into cash flow and profitability problems that we needed to remedy.”

Since then, Comfort Systems USA has successfully transformed into a “functioning operating company instead of a loose-knit consolidator,” according to Murdy. “The strength of Comfort Systems USA is the local operations. The presidents operate in largely an autonomous fashion. They know their markets the best. Many are the same people who were operating the companies ten years ago. We also have very strong regional vice presidents who work with the companies.”

Target acquisitions typically show annual revenues of \$20 million or more, and have a strong performance history as well as obvious potential. They are also balanced between installation and service, add to CSUSA’s geographic footprint, and have a leadership team that is motivated and willing to stay on to operate the company.

Once CSUSA and the target company reach the point of a formal letter of intent, CSUSA initiates a thorough due diligence process focused on key areas including leadership team, construction, service, accounting and administrative functions. According to Brian Lane, president and COO of Comfort Systems USA, “Our due diligence process is very comprehensive and includes a detailed checklist of all topics to be covered during the integration process. We start talking with the target company early in the process to define timeline and milestones and discuss how life will be different working for a public company.” The latter is critical to managing expectations and reducing risk, according to Lane.

Exhibit 4a: Comfort Systems Major Acquisitions

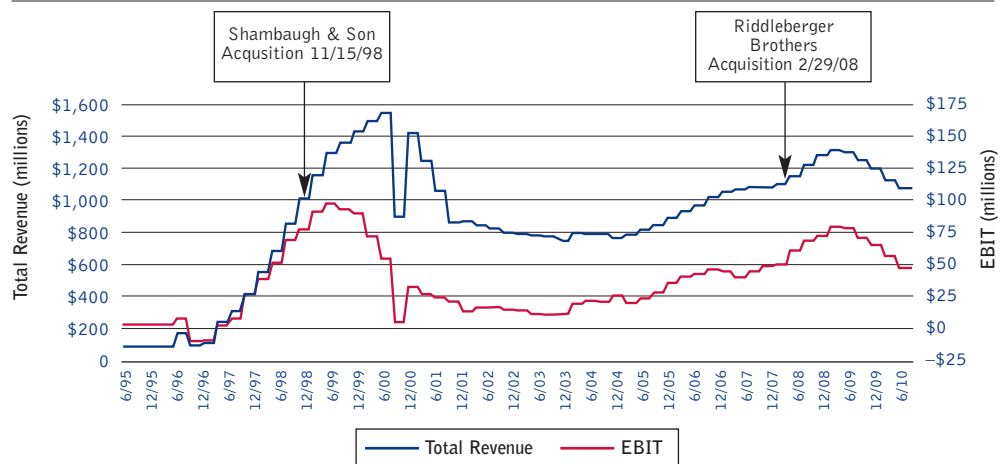
Target	Date	Transaction Value (\$ in millions)
Shambaugh & Son ¹	11/15/98	\$117
Riddleberger Brothers	2/29/08	\$43
Colonialwebb	7/28/10	\$81

¹Shambaugh & Son is now owned by EMCOR.

“Over time, we have learned to spend a lot more time on the front-end to get to know the people better and decide whether they really fit with our culture and vice-versa. That is one of the most difficult and important aspects of the integration process.”

Brian Lane,
President and COO,
Comfort Systems USA

Exhibit 4b: Comfort Systems Historical Total Revenue vs EBIT (June 1995 to June 2010)



The timeline for integrating a new company varies depending on the complexity of the transaction, but, on average, most CSUSA acquisitions are integrated within six months. Comfort Systems aims to put in place a shared business model that does not homogenize company activities, but allows for a flexible culture that can incorporate best practices, education, a shared safety focus and ideas from both the parent company and the subsidiary.

One of the chief goals during the integration period is to bring together ideas from all parties involved and add value to the operating entities in the form of revenue and collaboration opportunities. Similarly, leadership focuses on rewarding good performance and internally publishes metrics on each operation. All financial operations within the newly acquired company are ensured to be compliant with CSUSA's financial regulations, per public auditing requirements.

The Comfort Systems brand

Given the decentralized business model, Comfort Systems USA does not mandate a brand name change for acquired companies, since their local identities, linked to their brand name, are crucial to their perceived value. However, the operating companies (OPCOs) have the option to co-brand (e.g., X Company of CSUSA) if they think it will help them improve their market position. In many cases, such co-branding can lead to improved bonding and financial status on projects, as owners perceive less risk due to the parent company's financial balance sheet. Further competitive advantages may be gained through the ability to leverage and proliferate technical expertise, collaborate on large jobs, share labor, access energy efficiency services, and take advantage of purchasing economics.

Comfort Systems USA

Key acquisition success strategies

- Prudent and patient approach to selecting new companies.
- Leaving the newly acquired companies largely intact (good selling point).
- Bring “corporate value” to new companies quickly (e.g., better bonding rates, bidding a job they couldn't bid before). A quick win to establish credibility of ‘corporate.’
- Empathy. Come from a position of “how can we help?” if one of the OPCOs is in trouble.

Challenges

- Can't go too deep during due diligence in assessing people because they're too nervous during the pre-acquisition phase.
- Need someone impartial to accompany the deal – avoid “deal heat” and falling in love with target.
- Need to retain former management for three to five years if not longer.
- Employees' fear of losing their job – when management tells people they've been sold to CSUSA, one risk is that people get antsy and leave.
- During the earn-out period, it is sometimes challenging to keep company presidents engaged in the business, especially if the business encounters a period of financial under-performance.

“The value we create through a merger is where the two companies are stronger together than apart. Leadership that works together on a bilateral basis substantially reduces the integration risk. Money can’t be the primary driver for a merger. If it doesn’t work culturally and strategically, if it isn’t better for the collective clients and people, it doesn’t matter what the financial terms are.”

Craig Eisen,
Corporate Director M&A,
ARCADIS

ARCADIS

The company we know today as ARCADIS started out as Dutch-owned Nederlandsche Heidemaatschappij in the late 1800’s, gaining prominence as an engineering firm dedicated to water and land management. Since then, the company has grown into one of the industry’s top international firms providing design, consultancy, engineering and management services for infrastructure, water, environment and buildings markets worldwide. In the United States, ARCADIS currently ranks among the top 10 design firms, with U.S. accounts comprising more than 50 percent of overall company revenues.²

The international expansion at ARCADIS has been supported by many significant acquisitions. Over the last eight years alone, ARCADIS has completed more than 30 transactions worldwide, including several major acquisitions in the U.S. such as Malcolm Pirnie (2009), LFR (2008), RTKL (2007), PinnacleOne (2006) and Blasland, Bouck & Lee, Inc. (2005). Through the recent merger with Malcolm Pirnie – the largest transaction in the company’s history – ARCADIS obtained a top 10 position in the U.S. and global water markets.

Key to ARCADIS’ success is their “one firm” concept, which is based on a culture of internal collaboration and resource sharing to meet client demands on a global scale. Speaking with FMI, Craig Eisen, corporate director of M&A at ARCADIS, explains, “Our culture is a one-company culture but with the realization that local businesses operate differently to meet their own local market conditions. Therefore, it is a very collaborative company that allows for significant independent, local decision-making.”

Acquisition philosophy

ARCADIS is known for its strong strategic rationale when it comes to selecting acquisition targets. The key selection criteria include strategic fit, financial success, market reputation and quality of its management. ARCADIS expects all acquisitions will increase earnings per share (be accretive), have margins compatible with ARCADIS’ goals and offer significant business synergies, and produce a return on investment of 15 percent or more. Eisen adds, “Our model is to target the “A” companies – those that are highly successful on their own, have some strategic overlap with us but provide for an expansion of our geographic footprint, customer base and services offering. We also look for companies with leadership that wants to stay part of the business, sometimes offering newly acquired business leaders an elevated role. For example, BBL had a client-focused business model that we perceived to offer a competitive advantage in its delivery to customers and produced market-leading profit margins. Our U.S. company adapted that model and the former CEO of BBL, Bob Goldman, became the global leader of our environmental practice.”

ARCADIS’ integration process is fairly standardized in terms of overall scope, yet very customized, bilateral and collaborative in terms of actual planning and execution. Integration is typically led at the CEO level in parallel with integration teams, ensuring top-down and bottom-up communication throughout the process. A lot of time and energy is spent in the first year on team building, getting to know each other better and developing a common strategy. In a second phase, the teams focus on developing action plans and defining an organizational framework to support the combined strategy. The whole process can take up to two years or more, depending on the complexity of the merger. Eisen adds, “People often think the integration process takes

Exhibit 5a: ARCADIS Major Acquisitions

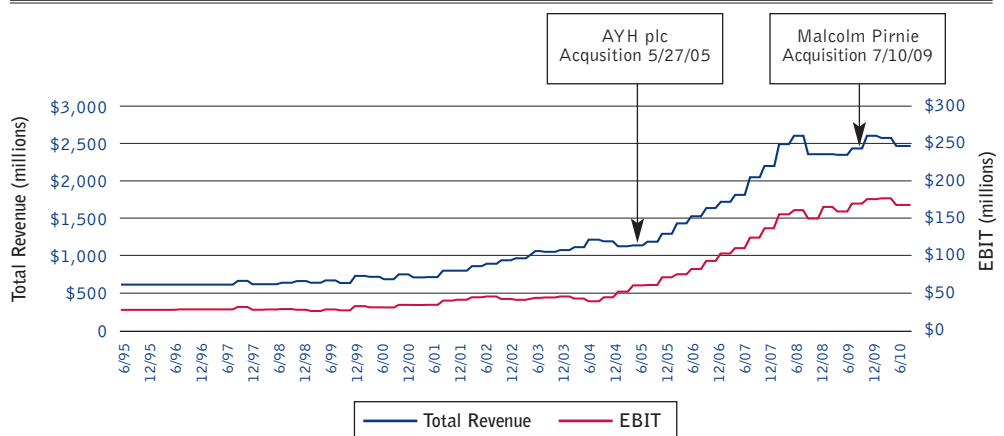
Target	Date	Transaction Value (\$ in millions)
Malcolm Pirnie	7/10/09	\$221
AYH plc	5/27/05	\$38

² ARCADIS Results First Quarter 2010. Presentation Analyst Call. May 7, 2010.

“A lot of uncertainty and distrust can occur when somebody perceives there is a loss of control as a result of a merger. This uncertainty has the potential to cause an “us verses they” attitude, so we invest a lot of time to develop common ground on strategy, goals and organizational structure to help prevent those problems from occurring.”

Craig Eisen,
Corporate Director M&A,
ARCADIS

Exhibit 5b: ARCADIS Historical Total Revenue vs EBIT (June 1995 to June 2010)



too long, and that it takes too much time away from day-to-day business. However, our overall strategy and game plan is one of minimizing our transaction risk and maximizing the potential for our combined synergies. Accordingly, we don't buy turnarounds and we don't buy companies where there is not a good strategic fit.”

It is important to note that integration does not occur with every ARCADIS transaction. Explains Eisen, “It is only conducted where it makes good business sense. For example, RTKL has not been integrated to date and still sells under its own brand as theirs is much stronger than the ARCADIS brand in the architecture sector.”

The ARCADIS brand

ARCADIS was the brand and name given in the late 1990's with the objective to deliver an international company image with universal appeal. Since then, brand integration has been handled on a case-by-case basis, depending on the perceived brand value of the acquired company. For example, Malcolm Pirnie is currently still selling under the Malcolm Pirnie banner as ARCADIS sees a lot of value in that brand. Eisen notes that “Going forward, we need to decide in terms of creating a global water business how we best present that in the market place. That is part of today's discussion and it's going to be a bilateral process.” According to Eisen, a brand change to ARCADIS is not mandated – it is largely a decision of the acquired company as to when or how they see value in the brand transition. Therefore, a name change and subsequent operational integration can take three to four years, with the understanding that “one company ideal is generally best served by one name.”

ARCADIS

Key acquisition success strategies

- Organic transition – flexibility of time frame. Roles and responsibilities are initially left unchanged and then redefined post-merger, during the integration process.
- Integration strategy is developed collaboratively and collectively.
- Very comprehensive due diligence process upfront to reduce risk and uncertainty.
- Collaborative, supportive culture. Emphasis on independent, local decision-making – but with the interests of the greater ARCADIS in mind.
- Profit margin growth through transactions is by design.

Challenges

- Human challenge: individuals' interests, motivations and egos. Need to stay focused on what's best for the business; what makes the best sense.
- Finding the good “A” grade company today is a challenge. The world is getting smaller at an accelerating rate.

While there is no magic formula for acquisition success, firms who make many acquisitions gain expertise simply by learning from past transactions. Some common themes have emerged from discussions of each company's acquisition history.

Conclusion

While some of the companies examined in this paper might seem to have acted as an “operator” or “integrator,” it is clear that many have fluctuated between each strategy as they have evolved, or found a compromise within the spectrum. In fact, what binds this group of successful companies, each with distinctly different acquisition philosophies, is their sensitivity to people (both in the acquired company as well as in the parent company), and ability to tailor an integration strategy to the particulars of each transaction. In the words of Tony Guzzi, president and COO of EMCOR, “It is more an art than a science.”

While there is no magic formula for acquisition success, firms who make many acquisitions gain expertise simply by learning from past transactions. Some common themes have emerged from discussions of each company's acquisition history. When formulating an acquisition strategy, consider the following:

- What are the key strengths of the target company? What should you not change?
- What perceived synergies exist between the two companies? Where can you add value?
- What is important to their staff in terms of corporate policies, benefits and culture?
- Does their name hold greater sway in their local market? If so, you may consider co-branding, at least initially.
- How will the ownership structure of the target company affect the integration process and subsequent organizational structure?
- What are the costs of this acquisition? If you are bringing on new capabilities, will you need expanded facilities and/or overhead to manage them?
- If you plan on integrating the target company fully from the outset, is the cultural match strong enough? Are the operating platforms for accounting, human resources and so on compatible?
- How can you best utilize the management of the target company in a new capacity?

Industry best practices for handling acquisitions include:

- Avoid deal heat. Target companies that have multiple potential buyers can drive up the price and encourage acquirers to lose sight of the value proposition.
- Ensure that there are clear gains on either side of the equation. Determine what the target company has to achieve by joining your firm.
- Start outlining the integration process early, during due diligence. Develop a working vision and create an acquisition integration plan. Manage expectations and minimize uncertainty.
- Get to know the people that comprise the target company. Ensure that there is a strong cultural fit prior to completing the acquisition.
- Educate new staff on the policies, processes and structure of your firm. Deal with the individual concerns of employees in a timely manner, and keep your answers honest.
- Communicate frequently during integration. Be prepared to adapt the integration schedule for different units.
- Keep in close contact with clients during integration. Customers are often the best authority on when to drop a subsidiary's name and focus on growth of the parent brand.
- Incentivize staff post-acquisition to ensure their commitment and loyalty to the new company structure.

There is great value in organic growth; however, certain situations are better suited for acquisitive growth. Choreographed effectively, a smart acquisition can move both companies to the next level, and revitalize our very industry.

The growth of global mega-firms during the past decade has skewed attention toward ever-larger acquisitions in foreign markets, but strong domestic firms have a lot to gain through acquisitions also. The game is always changing, and small or medium firms can capitalize upon the existing market presence of an acquired firm to move into new markets or expand their service offerings. Firms who are not highly acquisitive, but have a solid rationale for a purchase, should take heed to lessons learned by others, invest in formulating the post-acquisition strategy, and go for it. There is great value in organic growth; however, certain situations are better suited for acquisitive growth. Choreographed effectively, a smart acquisition can move both companies to the next level, and revitalize our very industry. ■

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