Article - Mistakes Made by Architectural and Engineering Firms Attempting to be Acquired or Selling on Their Own – Part I.

Many have grown to rely on Stonemill Partners and our expertise when selling or buying an Architectural or Engineering firm. Our articles and other information resources have proven to be invaluable in transition planning and being represented for acquisition.

It is in that spirit that we offer the following content related to something we hear often:

This is the first in a series of short articles that will help in your planning as well as help to as a base for your conversations with us.

Selling an architecture or engineering firm can be difficult and time consuming. The merger and acquisition (M&A) process is one that requires careful planning, competent professionals assisting the selling firm, and an understanding of the deal dynamics involved in the negotiations. Principals, CPA's and attorneys that have not been engaged in many M&A transactions frequently make mistakes that can result in a less than favorable price and/or terms or even kill a deal altogether.

Having worked on many, many merger and acquisition deals over the past, we have found two things to be true: 1) Every deal is different. 2) There are mistakes sellers (and buyers) often make that complicate deals and harm their own self-interest.

The following is a list of common mistakes made by architectural and engineering firms attempting to sell their firm themselves:

1. Not being prepared for the effort, priority and time a deal will take. Successful exits through M&A are possible however they can be time consuming, involve significant due diligence review by a buyer, and require advance preparation, the right priority and resource commitment by the seller. Acquisitions, from start to finish can often take 8 to 14 months or more to complete.

2. Not having an appropriate Non-Disclosure Agreement (NDA) in place. Usually, when selling a firm, confidentiality is very key. A well-drafted nondisclosure agreement (NDA) is essential to protect the firm's proprietary information. Sometimes buyers are strategic competitors. While it is not necessary when first contacting a buyer with basic, general information about the seller, it can be a mistake to engage in extensive disclosure during an M&A process without an NDA in place. The NDA requires the potential buyer to not disclose or use confidential information of the seller. It also restricts the buyer's ability to contact employees, customers, and suppliers. The NDA should prohibit the buyer from soliciting or hiring any employees of the seller if a deal is not consummated, for a designated period of time.

3. Not obtaining the appropriate legal counsel. The seller should avoid a general practitioner or general corporate attorney to guide them through the M&A process and/or negotiate and draft the appropriate deal documents. It is best to have a lawyer who primarily or exclusively handles mergers and acquisitions. There are many difficult and complicated issues in structuring M&A deals, reviewing acquisition agreements, and executing the final transaction. A seller should contact a lawyer who understands M & A issues thoroughly, understands customary market terms, understands the M&A legal landscape, is responsive with a sense of urgency and priority, and who has experience with other acquisitions.

4. Not hiring an M&A Advisor with industry experience. A M&A advisor experienced in the A/E/C industry can bring enormous value to a seller. Here are some examples:

- Assisting the seller and its legal counsel in developing an optimal sale process.
- Helping to prepare an executive summary of selling attributes and confidential information memorandum for potential buyers.
- Finding and contacting prospective buyers.
- Coordinating meetings with potential buyer and facilitating communication.
- Obtaining signed NDAs.
- Coordinating and facilitating the seller's responses to buyer due diligence requests.
- Prepping the seller's management team for presentations to the potential buyers.
- Assisting in the negotiations of deal terms and purchase price.
- Advising on market comparable valuations.
- Sharing information of other solution-based deals and deal structures.

A brief note about Stonemill Partners: Stonemill Partners is a mergers and acquisitions advisory firm working only in the A/E/C with companies like yours. We are looking to help others meet their transition objectives and to sell successfully. You can discover more about the Stonemill Partners' approach and see our listings at www.stonemillpartners.com.

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