

MANAGING ENERGY SECTOR MERGERS AND ACQUISITIONS

Improve the Outcome with Subject Matter Expert Participation



Industry reports indicate significant numbers of M&A transactions are falling short of intended results. Transactions in the U.S. utility sector declined in 2019 for the third year in a row. Deals in today's energy sector are trending toward increased scale and complexity. Unique technical features of transactions for power, refining and petrochemical businesses can negatively impact a deal team's planning, due diligence performance and accuracy of evaluation. Examination of technical subject matter expert (SME) participation in a buy-side energy industry M&A team reveals several advantages that can improve understanding of the sector's complex systems, execution processes and operations, and add value to a deal's envisioned outcome.

Buyer understanding is improved. Technical participation by deal team SME's with engineering and construction business knowledge can improve buyer awareness of asset characteristics. This is especially true when a targeted purchase involves an E&C business, an oil & gas exploration and production operation, a manufacturing or equipment fabrication facility, or even a large capital project underway in the energy & chemicals industry. Here, evaluation and due diligence can be greatly enhanced by participation of knowledgeable technical professionals in an M&A team. Much in the same manner as banks and investors engage lender or bank engineers to monitor, evaluate and advise on the health of large capital projects, engineering, project and construction management expertise can be used to enhance buy-side planning, evaluation and due diligence phases of M&A transactions undertaken by investment bankers, private equity firms or holding companies.

Value-added due diligence objectives. Significant contributions can be made to many facets of energy or utility business assets. SME's intimately familiar with EPC processes, shop fabrication, facility operations or product delivery can evaluate organizational and management programs, risk aversion practices, regulatory compliance, and physical condition aspects of plant and equipment within a business. Technical specialists are often better able to judge the impact of non-answers to questions in a due diligence check list. Addressing broader areas such as identifying and evaluating technical compliance relative to contractual obligations can often enhance the value of many commercial or financial due diligence objectives.

Enhanced deal team productivity. Inadequate SME participation particularly in planning, evaluation and due diligence phases of an M&A transaction can be deal breaking. Specialists with organizational intelligence in the EPC industry, knowledge of business and project management risks, and facility operational experience can be key contributors to a successful merger or acquisition. Careful attention to the selection of experienced technical experts for a targeted business, facility or capital project in development can improve a deal teams productivity and ultimate knowledge of the asset.

Some examples. Technical advisory contributions to the M&A process for an energy or utility sector transaction can be substantial. In one example known to this writer involving acquisition of a bankrupt global engineering and construction contractor, millions of dollars were saved with the help of construction specialist input to re-negotiation of liability limits with owners of assumed power generation construction contracts. In another example, an acquisition due diligence investigation by an engineering and project management professional into operations and project management processes by a national fabricator of energy industry equipment components identified code certification and safety deficiencies leading to adjustments in the deal favorable to the buyer.

Proven approach. Technical SME's are commonly relied upon in other business areas needing similar input. An example is evaluation by bank or lender engineers of technical and commercial performance by a project contractor to capture information deemed key to lender business decisions. Important due diligence advice is typically the result of design office and/or construction site visits and attendance at status meetings to evaluate the health of an ongoing capital project. In addition to project design, cost, schedule, quality, change management and safety performance, deliverables often address a contractors vendor or subcontractor management performance, proper use of funds, ability to service debt, and the relation of payment disbursements to actual progress. This established process is perfectly applicable to objectives of energy sector M&A transaction evaluation and due diligence.

Multiple benefits. Areas of beneficial participation are many. Depending on the type of targeted business, M&A planning, evaluation, and due diligence tasks may involve industry unique characteristics best addressed by specialists experienced in the design, construction and operation of power, refining or petrochemical works or exploration and production facilities. An important topic needing technical input is compliance of a pursued asset with recognized and generally accepted good engineering practice. Other areas where an SME may add value include but are far from limited to examination of an asset's physical plant condition or stored material preservation tactics; methodologies for management of operations or project risk; status and quality of construction; plant operations and equipment maintenance procedures; applicability and status of ASME fabrication code and ISO 9000 family quality management certifications; and health, safety and environmental regulatory compliance.

Consultants or business owners interested to learn more about the role of SME specialists in M&A planning, evaluation and due diligence processes may contact this writer or one of several associations dedicated to the merger and acquisition profession. Two examples are the Institute for Mergers, Acquisitions and Alliances (IMAA), and the Alliance for Mergers, Acquisitions and Advisors (AM&AA), where numerous articles can be found online.

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