BerryDunn

Navigating mergers and acquisitions in construction

The blueprints for a successful transaction



Know what to plan for whether you're buying or selling. Buying a construction company can be a great way to scale up your business, eliminate roadblocks and bottlenecks, or launch a new endeavor. Identifying a target, completing due diligence, and closing a transaction is no small task. And for sellers, preparing for a successful sale requires comprehensive planning. Whichever side you're on, knowing what to expect from the process is the first step in having an efficient and successful transaction.

What you need to know before you...

	BUY a construction company	**SELL** a construction company
STRATEGY	Well-executed acquisitions begin with a plan for what you are looking to buy, how you plan to do so, and who is going to help you along the way. **Identify why you want to buy:** • Increase workforce • Purchase backlog • Expanded service offerings or geography • Eliminate a competitor • Synergies (cost reduction, economies of scale, cross-selling opportunities) **Identify a target:** Refine what kind of company you are looking to buy. Services, culture, size, geography, etc. **Put together an acquisition team** including legal representatives, investment bankers/ business brokers, financial due diligence analysts, and tax experts	The road map for selling a company can look very different depending on what exactly you are selling and who you are selling it to. **What are you selling?** • Workforce • Backlog/client base • Brand, industry expertise, market, or geographical niche **What you need to know to get ready** • Prepare your business plan • Succession plan → value acceleration • Key contacts • How do you win work: % of bid/negotiated work • Have a business valuation performed **Identify type of exit:** Who is the next logical buyer? Who is the next likely buyer? • Competitors, ESOP, private equity groups, management, family member **Financing:** What are your liquidity needs?
DUE DILIGENCE	Work with financial due diligence experts to help you identify problems and navigate potholes. **You'll want to include:** • Analysis of profitability • Compensation and pay structure • Tax structuring • Balance sheet considerations • Backlog and win rate • Contract margin fade and gain • Identification of any unusual financial maneuvering	Uncover the potholes, prepare the data, and get the narrative ready before buyers force your hand. • Prepare sell-side quality of earnings analysis • Prepare a data room • Focus on financial, legal, and operational documentation over the last five years • Assemble your team (informed management team members and external advisors)
OPERATIONAL	Ask these questions about the target. • **Customers:** Concentration? Satisfaction? • **Suppliers and subcontractors:** Concentration? Satisfaction? • **Management:** Age? Bench strength? Redundancies? • **Employees:** Turnover? Age? Abilities? • **Competitors:** Strengths? Weaknesses? • **Other risk factors:** Legal threats? Regulation? Economic risks?	Prepare documentation. Prepare documentation related to customer concentration, suppliers and subcontractors, management and employees, and other factors

What the process looks like

Roadblocks to a successful transaction

- Lack of trust in the other party
- Misalignment of goals between acquirer and sellers
- Insufficient, inaccurate, or misleading data
- Unable to agree on a purchase price

The timeline for buying construction businesses varies because it is a process rather than a singular event. **The following is a general outline of what to expect:**

1 Teaser sheet

A teaser is a one- or two-page summary letter prepared by investment bankers or M&A advisors that highlights the qualities of a company for sale or an investment opportunity — such as a summary of services offered, high-level past and projected financial information, the percentage of the company offered for sale, and any other unique details about the company.

2 Confidential information memorandum (CIM)

If a potential buyer develops an interest, the next step is to sign a non-disclosure agreement (NDA) to keep matters confidential. Following the signed NDA, the sell-side's M&A team sends more information about the company, which usually comes in the form of a confidential information memorandum (CIM). A CIM is usually a lengthy document (often 50+ pages) detailing important aspects of the construction company.

3 Letter of intent (LOI)

After the buy-side's management team reviews the CIM, a crucial step in the buying process of a construction company is creating an LOI. An LOI is a document outlining the understanding between the parties, which they intend to formalize in a legally binding agreement. The LOI shows the seriousness between both parties and often includes the intended purchase price, structure of agreement, payment terms, closing date, binding effect, and timing of due diligence.

4 Due diligence

As part of the financial due diligence process, buyers often retain accounting and finance professionals to prepare a quality of earnings report (QoE). A QoE is a deep dive into the financial soundness and trends of the target. The QoE is designed to be the strong foundation of the acquisition process.

How can BerryDunn help?

Our transaction advisory services team brings clarity to the complexities of transactions, helping clients understand the:

- Financial condition of a company, presented fairly and accurately
- Financial trends and trajectory of a company
- Risks to consider

Our deep expertise allows us to extract actionable information from the data. **Contact us** to learn more about how we can help position you and your clients for success.

BerryDunn

With offices and employees located in 40+ states— wherever you are based, we look forward to working together.

berrydunn.com