



Consolidation of Firms: Our Perspective on External Growth

By Donald Alford and Lauren Wright, NV5

One of the most common questions we field from investors, analysts, and industry professionals is whether the aggressive mergers and acquisitions (M&A) strategy we have implemented at NV5 since our company's inception in 2009 is correctly characterized as a "roll-up" approach. It is not. Acquisitions are in NV5's blood, but what we have created in the decades our management team has spent together is an *integration* strategy, not a *roll-up* strategy. Allow us to explain the difference.

Since NV5 was founded, we have completed 11 acquisitions, and since we went public in March of 2013 we have completed seven. In fact, NV5 was built on a foundation of two major strategic acquisitions in 2009 and 2010: our purchase of Bureau Veritas's construction quality assurance business line, and our acquisition of Nolte Associates, respectively. Since the late nineties, our senior management team, who worked together at U.S. Laboratories and at Bureau Veritas, has been responsible for roughly 50 acquisitions. The United States is a particularly ripe environment for acquisitive companies like ours, with roughly 145,000 practicing engineering firms vying for small pieces of the professional engineering and consulting services market (IBISWorld 2013). But even companies with the most sophisticated of roll-up records will run into trouble in the process of consolidating firms without a sound integration philosophy to follow. Here

are some of the lessons we have learned.

Never Underestimate the Importance of Culture

Believe it or not, highly profitable companies with clean balance sheets can become impossible to integrate unless a proper cultural fit exists between buyer and seller. At NV5, the culture we live by is one of a *shareholder-value company*. Our contract with investors is our budget, and we are able to provide our clients the highest quality work at the lowest price because we protect the bottom line of our clients' projects as if it were our own. At NV5, we will not do a deal unless we know we can add value to an existing operation with cross-marketing opportunities, best practice procedures, and/or efficient back office support. Moreover, not only do seller-owners complete their exit strategy, but we typically also include key non-selling management in the transaction by granting shares of our restricted stock. The bottom line is that with a new acquisition we seek to gain partners going forward, not merely additional employees, and right now over 47% of our stock is owned by insiders and employees.

Part of our culture as a shareholder-value company is also a very flat vertical organization, rather than a matrix organization, which is common in our industry. We empower entrepreneurial leaders as COOs of each

of our five service lines: construction quality assurance, infrastructure, environmental, program management, and energy services. Under this flat organization, employees at the companies we acquire can continue to do what they do best: serve clients in the field and exercise their technical skills. We don't turn talented engineers into administrators of geographic regions, which often happens in large matrix organizations, and we don't ask them to manage a service line with which they have no prior experience.

Deliver Value Through Centralized Back Office Support

We insist on consolidating five back office functions after we make an acquisition: Human Resources, Legal and Risk Management, Finance, IT and M&A. In consolidating these central services our goal is to support operations rather than interfere, and foster accountability, transparency, and fairness.

With Human Resources, we insist that everyone in the company is on the same benefits plan, and if the benefits plans of the company we acquire are richer than ours, we perform a one-time salary adjustment. If our plan is richer, employees are automatically transferred to the better plan. Finally, every person in the company undergoes an annual performance review with his or her manager, and each person is assigned objectives he or she can meet in order to succeed within our organization. We also maintain a very robust bonus plan. Bonuses with a combination of cash and restricted stock are another way we drive stock deep into our company.

Second, with respect to Risk Management services, NV5 has a full-time legal team on staff at our corporate headquarters to make sure the companies we acquire have all of the necessary insurances and risk mitigation efforts in place immediately after closing a transaction.

Third, because we are a publicly traded company, consolidating our financial information and maintaining compliance with all SEC regulations is an absolute necessity. A new acquisition is immediately included in a regional financial network with specific staff assignments and the conversion or integration to our Deltek ERP platform begins immediately.

We also begin to bring a new

company into our Information Technology system as quickly as possible after closing a transaction. The acquired company's website remains unchanged during a transitional period, but is linked to the NV5 website.

Finally we wish to coordinate our M&A effort out of centralized services and have experienced staff devoted full time to this effort. Many of our best leads on potential acquisition targets come from operations, and we encourage suggestions and contacts in order to maintain a very active M&A pipeline.

Our goal after the transition period is completed is to be able to support new acquisitions more efficiently, but not in an overly invasive manner, and save on indirect costs as compared to pre-acquisition.

Become a Branded Company, Not a Company of Brands

A final core difference between a roll-up strategy and a true integration strategy is that the latter necessitates the eventual transition of *every* acquisition's name to "NV5." Sometimes, the companies we acquire make this transition within six months, and sometimes the process takes up to two years if the company's name carries considerable weight in a region or service area. We strive to walk the fine line between realizing the benefits from the goodwill of an acquired company and at the same time taking advantage of the opportunities presented by a national organization.

After completing an acquisition and on a regular basis going forward, we make sure predecessor offices are taking advantage of the services our new acquisitions can provide the company. We take synergy very seriously at NV5, and in fact we have a Chief Synergy Officer

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whose responsibility is to ensure that every office (especially new acquisitions), knows about the full suite of engineering and consulting services we perform, so that we can provide our clients with expanded service offerings.

By paying close attention to company culture, encouraging synergy through corporate shared services, and committing to a dynamic branding plan that promotes cross-selling, we have availed ourselves of a strategic growth toolkit that has accelerated organic growth and uniquely positioned us for more successful mergers and acquisitions.

About NV5

NV5 Holdings Inc. (NASDAQ: NVEE) is a provider of professional and technical engineering and consulting solutions to public and private sector clients in the infrastructure, energy, construction, real estate and environmental markets. NV5 primarily focuses on five business verticals: construction quality assurance, infrastructure, energy, program management and environmental solutions. The company operates 29 offices in California, Colorado, Florida, Massachusetts, New Jersey, Ohio, Pennsylvania, Utah and Wyoming, and is headquartered in Hollywood, Florida. For additional information, please visit us at www.NV5.com. Also visit us on Twitter, LinkedIn, Facebook, and Vimeo.

About the Authors:

Donald Alford has served as Executive Vice President of Strategic Growth and as a member of NV5's Board of Directors since 2010. Mr. Alford has over twenty years of uninterrupted experience leading Mergers and Acquisitions initiatives for companies in the engineering industry, including his tenure at Nova Group Services, Bureau Veritas, and U.S. Laboratories.

Lauren Wright has served as Director of Investor Relations at NV5 since January 2015, where she is responsible for crafting and disseminating a clear investment message to the public on behalf of the company. Dr. Wright has served in various strategic communications roles in the public and private sector since 2010.

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not lose one employee through the whole process and still have maintained 100 percent retention.

Since the acquisition, the Jacksonville office has more than doubled in size. We are now working with Hanson's offices across the country and in new markets including rail, aviation and federal services. We are attracting more interest from job seekers, including candidates with high-level experience and qualifications. This may be due in part to Hanson's nationwide presence, stability and employee ownership. The company ranked No. 2 in the large-company category for the Best Companies to Work for in Florida.

The addition of our office to Hanson also has boosted the company's Florida presence. With offices in Jacksonville, Tallahassee, West Palm Beach and the Orlando and Sarasota areas, the company's strategic goal is to continue to grow and become one of the preferred consulting engineers in Florida and the southeastern U.S.

As I reflect on the overall acquisition experience, I have come away with an appreciation for the expended joint effort that made it a success.

About the Author:

Chantal Bowen, PE, is a senior project manager at Hanson Professional Services Inc.'s Jacksonville, FL, office. Before joining Hanson, Bowen was president and a managing principal of Bowen Civil Engineering Inc. in Jacksonville. Hanson acquired BCE in 2013. She has worked on large, multiland-use developments; federal and state highway projects and small private developments. She also has an extensive background in water resources and environmental permitting with local, state and federal regulatory agencies. She is a member of the Florida Engineering Society, National Society of Professional Engineers, American Society of Highway Engineers and Society of American Military Engineers. She is a licensed professional engineer in Florida and a graduate of the University of Florida. She can be reached at (904) 737-0090 or cbowen@hanson-inc.com.