

Due Diligence in Mergers and Acquisitions: More Than Just Numbers

As part of any financial transaction, it is incumbent upon the potential purchaser to obtain as much information as possible about any entity being considered for purchase, a process known as due diligence. In the case of mergers and acquisitions, due diligence typically is conducted in a number of areas, including financial, human resources, and environmental. Knowing how to quantify the risks and place a true value on assets is paramount to financial success and requires analytical tools and expertise in financial analysis, hydrogeology, regulatory requirements, manufacturing, and environmental engineering and management.

In the case of environmental due diligence, it is critical to conduct a comprehensive assessment that considers both potential liabilities and business operational procedures and risks. ICF Consulting performed a due diligence assessment of a large power generator and transmitter with multiple locations throughout North America in anticipation of a potential purchase by a client.

The purchaser recognized the need for comprehensive environmental assessments of the seller's real property, as well as assessments of regulatory and other risks associated with power generation and transmission companies. Specific questions considered during the analysis included the following:

- What pollution control investments will be needed after completing the transaction?
- How will environmental regulatory policies affect the seller's core markets and the value of assets?
- How is return on investment estimated given volatility and uncertainty in power markets?
- How do environmental, health, and safety issues affect a purchase bid?

Air regulatory risk assessments and power market forecasts were completed using ICF Consulting's

Integrated Planning Model (IPM®). The assessment projected the asset value impact of a range of potential environmental regulatory futures, the corresponding control costs, and electric and fuel market dynamics. Alternative control, operation, retirement, and fuel options were optimized to maximize the value and flexibility of the seller's assets. ICF Consulting projected power, fuel, and emissions allowance price impacts that could help offset air compliance costs.



ICF Consulting's proprietary Decision Analysis Tool™ was used to evaluate environmental, health, and safety (EHS) concerns to identify and characterize significant potential liabilities associated with past and current practices at each facility or from off-site locations. Site assessments also were conducted to further characterize the nature and extent of potential contamination identified at a small number of the seller's facilities.

ICF Consulting provided a comprehensive report covering economic, energy, and EHS issues that strongly influenced the client's bid package. Options included walking away from the deal if the potential for liabilities was high, requiring that the seller remediate as many adverse site conditions as possible, adjusting their purchase price based on potential liabilities or costs of corrective action, or redefining the assets being acquired.

Ultimately, ICF Consulting found that the seller had numerous potential liabilities from their previous activities, however, the company had implemented a series of effective EHS management systems that greatly reduced EHS liabilities from current operations. Further, while some plants owned by the seller were not in complete compliance with applicable regulations, most were in

Perspectives

excellent condition and, overall, required little capital investment to ensure compliance. Additionally, the variety of generation technologies, locations, and markets mitigated exposure to changing pollution control policies and volatility in power markets. Based on this information, our client submitted an informed bid package that accounted for these potential liabilities and business risks.

For more information on ICF Consulting's due diligence and analytical capabilities, please visit www.icfconsulting.com/enviromanagement 