

# Power Temps

## *The impact of interim professionals on corporate valuation*

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Many companies have expanded their use of contract professionals in recent years. They have found that bringing in interim experts is often the most cost-effective way to deal with spikes in demand for specialized work, such as bringing a finance department into compliance with the rigorous demands of the Sarbanes-Oxley Act.

Contract professionals can serve another purpose that is not as well known and in fact is an advantage that dealmakers may overlook. A company that is making effective use of contract professionals can be a more attractive takeover candidate.

By reducing a target company's full-time head count, the company improves the potential valuation that an acquirer may give it. Once a merger goes through, contract professionals can play a crucial role in helping the new company phase out old procedures and implement new systems while at the same time holding down the costs of the consolidation.

Regarding use of contract professionals as a strength may seem counterintuitive. Reliance on itinerant consultants with no allegiance to the company could be taken as a sign that the company is deficient in human resources. But in fact, it should be regarded as an indication that a consolidation could be completed smoothly and at a minimum cost.

To begin with, a company's use of contract professionals is an indication that management is flexible in the way it handles staffing. It also shows that management and staff are accustomed to working with outsiders and integrating them into a team framework. Managers and employees with that mindset will most likely present fewer cultural problems for the management of the acquiring company.

Cost-effective use of contract professionals also indicates that a company's management is committed to holding down long-term costs for pensions, severance obligations and other benefits associated with full-time employees. With a streamlined full-time work force, the target company will likely have a higher valuation in ways that will show up on the balance sheet and will potentially earn a higher multiple from a buyer. For example, the company will have higher revenue and profit per full-time employee and by using project professionals to quickly fill any gaps in the full-time work force; the company can turn idle assets such as empty office space or unused equipment to productive use.

A streamlined full-time work force will pay additional dividends to the acquiring company in the form of lower costs for personnel adjustments following a merger, since any redundant contract professionals can be terminated at a fraction of the cost of buying out full-time employees.

While some contract professionals may no longer be needed after a merger, others are likely to become more important than ever to the new management. Those who were working at the acquired company prior to acquisition can serve the new regime in powerful ways to promote continuity with the old while still facilitating the new.

They are independent of the corporate and management structure of the acquired company and have no strong psychological attachment to it. Accustomed to shifting allegiances and joining new teams, they will be able to easily shift their loyalty to the managers of the acquiring company. They will have no divided loyalties or conflicted feelings about casting out old ways of running the business.

Project professionals also can bring considerable technical expertise to bear in the integration phase following a merger. Most of them are, by the nature of their jobs, specialists in helping companies adopt and integrate new business systems and procedures. They are well-suited to the task of helping a new company formed by a merger to jump-start newly constituted offices and newly consolidated staffs. They can bring critical management skills to their jobs with the new entity, and firsthand knowledge of best practices used in other companies.

Project and interim professionals with special expertise in a particular system or procedure could more rapidly execute key initiatives. At the same time, they can serve as mentors while training internal staff and transferring the knowledge, skills and best practices necessary for full-time employees to maintain the new infrastructure, once it is built.

Full-time employees may have greater difficulty adjusting to new managers and practices and indeed may look for ways to undermine the changes occurring around them. But contract professionals have an entirely different mindset. Their career is based on moving from one project to the next. They are ideally suited for helping to implement mergers. A company that has managed to integrate interim experts into its professional work force should be regarded as a more desirable candidate for merging with another firm.

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