Engineering Services for 5 key verticals: Environmental, Infrastructure, Energy Support and Transmission, Program Management and Construction Quality Assurance

Interview with: Dickerson Wright - Chairman, CEO

CEOCFO: Mr. Wright, what is the vision for NV5 Holdings?
Mr. Wright: Our vision is to grow the company along five key service verticals in the engineering field. We have identified these as the most profitable service lines that have the highest potential for organic growth. The vision is to drive entrepreneurs to run and grow these verticals so the company grows at a higher rate than our industry and the industry standard.

CEOCFO: Was that the idea from day one or has it changed as the company has progressed?
Mr. Wright: The vision is in the name of the company. It was our vision from day one. The vertical five identifies the key service lines that we look to support. They are managed by an entrepreneur in each of those areas. They are managed, not by any geographical region, but purely by service line. The first is environmental services, both in the forensic environmental world and in the world of occupational health safety. The second is infrastructure, supporting the nation’s infrastructure with full service civil engineering, surveying and design services. That is our largest vertical. The third vertical is energy and it is mostly energy support and the transmission of energy. We have a very large presence in transmitting LNG projects and natural gas. It is energy generation and energy transmission. In energy generation we have ongoing long term contracts with utilities such as Florida Power & Light. That is the energy piece. The fourth piece is program management. Program management is where we manage key programs for cities, states and large national clients. We manage the entire construction process, but not at risk. We manage all of the pay requests and we validate the progress of the contractor doing that. In that program management base we have our major clients, such as Colorado Springs, and many municipalities. This is a very profitable piece of our service offering. Program management at NV5 has two components. The first component of program management is horizontal work; program management to support transportation infrastructure. The second piece is vertical program management where our clients are the Ritz Carlton, Ruth Chris Steakhouses, national chains and hotel chains where we manage the construction process for the owner, but again, not at risk. We are not responsible for the project’s overall budget. We are responsible for managing the budget, but we are not at risk if there is an overrun, or some cost issue. That is the program management piece. The fifth service line is construction quality assurance (CQA). These are all in the engineering space of course, but construction quality assurance is validating the construction of a project and verifying that it is in accordance with the plans and specifications. So, it is geotechnical work, welding, construction, inspection. The biggest portion of CQA is construction defect. We are expert witnesses and we...
do litigation work to support insurance companies, developers and those players in the construction process where there may be litigation. We are called in as experts. Those are the five key service lines. We were named Vertical Five because of those five lines when I started the company. The N stood for the largest acquisition that we have done to date, that was Nolte. NV5, the name of the company, really reflects our vision. It is something that we started and allowed us to clearly articulate our strategy.

**CEOCFO: What is the business model and some of the challenges?**

**Mr. Wright:** We do a lot of mergers and acquisitions and we are known in the industry as the small company acquirer; companies from $3 million to $40 million. We have grown tremendously in each of our verticals through acquisition. We have averaged over double digit organic growth and we have more than doubled the size of our company since it went public through the acquisition process. The key question is how many engineering firms are in North America alone. There are all types of answers, but there are over 145,000 engineering companies in the US. It is a very, very fragmented industry. Some are small two or three man practitioners and some are very large engineering companies like AECOM. Therefore, there is a sweet spot for us to grow our company through acquisitions. The reason we are public is because we believe in partners, not key employees. Many of the smaller firms that we look to acquire are, for example, companies that have reached a point in their evolution where the owners and managers are focusing on an exit. These companies are often lifestyle companies, meaning the net worth of the company founders is tied up in the value of that company. Perhaps the founders are spending more time at the country club than they are with the business and you have young people coming up within the company that have the client base. The natural polarization is between the owner, who wants a very high value for his stock, because that is his retirement; that is his lifestyle, and the young person coming up, who is looking to get equity. Of course the younger group does not want to pay much for that, because they feel, “I can go across the street. We are a service company and I have the clients now.” This is the dilemma. We fill the void in that dilemma. We acquire a company. We put stock in the deal. We provide equity that those young people can gain through restricted stock, through earning it. The restricted stock goes in part of the transaction, as well as cash for the owner who may want to exit. Another reason we are public is that we do not have tremendous internal battles over evaluation. The street decides what our company is worth, so the smallest shareholder and the largest shareholder in the company are treated the same. It is also a way for us to keep people. We have a very robust human resources process so, if there is a young Steve Jobs in our company, we don’t lose him because he does not think there is an opportunity with us. Through human resources—and this goes with acquisitions and it is part of what makes us unique—every single person in our company gets a review from his or her direct report. Every person should know what his or her salary is going to be, what his or her bonus is going to be. Every person should know how he or she can make the next career step up and how to gain more ownership within our company. I think it is a novel approach. I think the fact that we are a small company, but a public company, really helps us to create, develop, and grow partners and shareholders, rather than worry about key employees with employment agreements that may leave us.
CEOCFO: *How do you evaluate the personality of the young guy who is going to be in charge?*

Mr. Wright: Let us say this. No matter what the valuation is, no matter what we think the market niche is and how we can acquire expertise, we will not do an acquisition unless there is a cultural match; a fit between our culture, which is one of a shareholder-value company, and the culture of the acquisition target, those that we want to join us and grow our company. We want to put all of our value back into the company. We have to find people that want to grow with us. We have to assume that fit is there before we do a deal, and we won’t do a deal without it. We only insist on a few things when we do an acquisition. There needs to be integration. People cannot just be left to stand alone and create a silo. In our integration process we simply say to the target company, “There are five things that we are going to require and this will be to support your culture. If you think it is disruptive, then we should not do the deal.” First, we insist on, of course, our financial platform and our recognition of revenue and earnings and that is on the finance side. That has to be consolidated into one platform eventually. Second, our human resources, which I just spoke of and it is so important because we want to identify, attract, and keep good people. Third, our risk management; we have two full time attorneys on our staff. We want to manage the risk and that includes insurances. We want to review contracts. We want to make sure that someone is not betting the farm on a small project or putting the company at risk. The fourth thing we insist on is IT. We want to make sure our reports and all of our internal communications are integrated into one company. Then the last, of course, is our mergers and acquisitions process. I have had a person with me since 1998 who is focused full-time on strategic growth. We would love the target company to identify like companies in their area, but we want to control the process of the purchase of the company; the merger. Those are the five things. If people feel they are intrusive or it goes against their culture then we simply do not do the deal. There is other stuff we can look at. It is the tightrope walk of synergy within a growing company, not being so demanding or interfering with different business units but also being very inclusive. It is a fine balance. We have done it a lot. In my career, I have grown companies since I was twenty seven years old and our team has done close to fifty acquisitions. You kind of learn. It is like Pavlov's theory. The bell rings and the dog eats. With me it is a sledge hammer hitting me in the head; I try not to make the same mistake twice. Life is acquired knowledge and our model is what we have found works. Every time we purchase a company we learn more. We gain some things. Then eventually, it is maybe not the sixth thing, but it is important for a successful acquisition: the brand. The target company has to become NV5. There is a branding portion of our integration plan that is executed over a period of time. It could be six months, it could be up to two years, but eventually the target company will have the name NV5. We want to be a branded company, not a company of brands. Culture is really important and I guess that is our process for identifying culture.

CEOCFO: *Are there geographic areas where you would like to fill in with offices? Is it certain concentrations or just opportunistic?*

Mr. Wright: We run a vertical organization, so we really empower the Chief Operating Officer of each of those five service lines. We are not geography based. We believe in entrepreneurs and leaders. Therefore, we want our most technically competent person to be doing and managing a process that he has a passion for growing. We want to put our best person in front of the client. Many times, what happens when
you start to develop matrix organizations and they get very, very big, is you turn entrepreneurial leaders into highly paid administrators. We want a person that really knows the environmental business or really knows program management, for example. We want the leader to grow that particular business. We support them, but we are looking for that leadership. So to reiterate it is not geographic opportunities we are looking for, but growth opportunities through entrepreneurial leadership.

CEOCFO: Do many of your potential clients look for an NV5 company? How important is the NV5 branding and why do people come to you?
Mr. Wright: I think you have to have a certain critical mass. You have to be able to have the right insurances. You have to have financial statements that can support a project. That is part of what separates a small boutique company and a strong platform capable of supporting large projects. However, at the end of the day it is the best person, it is who you put forward, it is who is going to best represent what the clients are really looking for. For example, we do so much work in California for Caltrans, where the big national companies compete with us and we beat them because we are known in that area. However, that does not mean we can compete in Bangor, Maine or that we can always compete in a remote location in the US against a much bigger company. We are a really strong regional player with a national brand. We think that at the end of the day what really determines who will be chosen for a project is the client’s confidence in that company. 90% of our work is repeat business. The projects that we go after are the ones we feel we have a very good chance of winning.

CEOCFO: In which of your segments do you see the most growth?
Mr. Wright: We like higher profitability. We are trying to be opportunistic in program management. We are trying to be trying to be opportunistic in the key spaces of forensic environmental and forensic construction quality assurance. We think that those are places that we can grow more quickly and more profitably than the industry standard.

CEOCFO: Why should people pay attention to NV5 today? Why is the company outstanding?
Mr. Wright: From an investor perspective, we went public in March of 2013 at $6.00 a share—a very small IPO—and a free warrant that came with that. Our stock is now trading close to $13.00, so it has been up more than 100%. Those IPO investors who successfully exercised their warrants not only doubled the value of their stock, but they doubled the amount of shares they owned. We have grown. We are one of the fastest growing public companies in the engineering space in the country. The return on the investment we have given has been a tremendous return for our investors and our shares are becoming more liquid. We are averaging well over 50,000 shares a day trading, which may not seem like much, but it is compared to a boutique trading at less than 1,000 shares a day. Hence, we are being recognized. That is a very good investment and it is somewhat liquid for investors. The second thing is our management team. All of us have been together doing this for quite some time. I have had people who have been with me for over twenty years and this is what we do. We know this space. We know how to buy companies. We know how to get that natural arbitrage between the valuation we pay and the valuation that is recognized on the street. It is what we do. We think there is plenty of room to grow in what we do. That is probably why we would be attractive to an investor.