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Key steps for an Owner Acquiring a Project in Late Development Phase

Larger owners quite often acquire major projects from junior developers at various development stages, including potentially close to Final Investment Decision. Of course, such a transaction requires a substantial due diligence, as well as some precautions to fully understand the remaining risks associated with the venture. In this White Paper, based on our experience we expose some of the major precautions that need to be considered from the project management perspective.

Key areas to be checked during due diligence

Acquiring a large project during its development process, usually with a substantial profit for the initial junior developer, must be a well-thought-out decision and requires a well-developed due diligence process.

There are many aspects to due diligence including on the financial, ethics, corporate setup etc. Focusing only on the project development aspects, this due diligence must in particular comprise the following aspects:

- Actual commitments already made by the project company (in particular, commitment with future clients regarding delivery dates or output quality)
- Status of the project with regard to its expected maturity level, on all dimensions of project development (site & regulatory, technical, and project execution preparedness); if the project is close to a governance gate, the actual condition of the project with respect to the gate expectations,
- Actual competency of the current project team regarding project development and execution (as a way to check the quality of the work performed and also to evaluate the need to complement or partially replace the team in the future).

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Beyond those general aspects, some more specific points of attention are developed below.

Specific points of attention regarding project definition maturity

Based on our usual criteria for project definition maturity, and our experience, the following aspects need to be independently investigated. The actual level of maturity to be expected will depend on the actual development stage of the project and the owner should refer to its own governance process on the matter.

Technical maturity

- Scope completeness, and consistency of design maturity across the scope. Many projects appear to be quite developed when it comes to the main process, but often miss out regarding utilities, provision of raw material or ancillary process inputs, or important interfaces such as connection to existing facilities or the power grid, which may jeopardise the entire venture,
- In case of an innovative process or an uncommon input material, the existence or planning of an adequate pilot facility with the right scale and representativeness is an important requirement,

Site & regulatory

- Proper geotechnical knowledge of the project site. Because of the criticality of this aspect, it may in certain situations warrant independent confirmation of soil characteristics, including possible pollution (ordnance, previous activities), even if such studies and surveys already exist,
- Independent estimate of meteorological and other environmental aspects, in particular if directly linked to facility production capacity (e.g. renewable energy projects, seasonal aspects),
- Actual regulatory hurdles remaining to be overcome, and feedback from similar projects in the same country. In particular, regulatory requirements may influence the shareholding structure, corporate setup and possibly require regulatory provisions to be included in the financial setup,
- Actual status of stakeholder situation, especially regarding possibly identified reluctance from key local stakeholders to the project.

Project preparedness

- Realism of the contracting and execution strategy, in particular the availability of suitable manpower and resources, and the overall capacity of the supply chain. Critical equipment or services must be analysed regarding their expected level of performance in the circumstances of the project. The new owner may also have frame agreements that will influence the contractual and bidding strategy,
- Realism of the overall project schedule. It must be challenged: long lead items ordering must be consistent with market practices, and the overall construction schedule must be consistent with comparable benchmarks (or significant deviations clearly justified),

- Actual status of signed contracts and ongoing bids to contractors (bidding dossier, status of bidding and contractor market, existence of frame agreements),
- Redevelopment of the project risk analysis to reflect the new owner circumstances. They will influence probability and consequence of risk, and new risks and opportunities will also be identified in the new setup,
- Suitability of information systems for project management and control to support the expected growth in project activity during execution,
- State of the project team organisation, its level of integration and inclusion of all relevant competencies to ensure successful execution of the project (in particular regarding constructability, operability, commission-ability). Any local project organisation needs to have a positive connection with local stakeholders and regulatory agencies.

Project-related aspects regarding the business case

The owner project business case will need to be fully updated to make it specific to the new owner and its corporate context (cost of capital, debt leverage, specific internal costs for project and operation resources).

From the perspective of project management, particular care must be exercised on:

- Current estimating uncertainties, based on estimate class (which may differ depending on parts of the scope). They need to be accounted for in the business case at least in terms of sensitivity (refer to White Paper [2023-03] *'How to Avoid Underestimating Cost Expectations during Project Definition Phase')*. Also, the latest estimate available may sometimes be a few months old and an update needs to be done based on the latest development activities,
- Project contingency must be fully re-evaluated based on an updated risk analysis of the project that accounts for the particular circumstances of the new owner,
- Operating costs must be re-evaluated based on the new owner circumstances, because even small deviations may have a substantial impact on the overall business case due to the operating duration.

Accounting for the project integration in the new owner organisation

In addition to the project due diligence, the impact of the transition to a new owner must be accounted for. It will certainly create disturbances in the project development activities:

- Workload linked to the due diligence itself,
- Workload related to the organisational transition, and transition aspects such as changes of corporate structure, delegation of authority, novation of contracts etc.
- Potential impact on regulatory activities and schedules,
- Impact of the new owner governance (e.g. review gates) on the overall project schedule, which will often require a re-baselining of the overall project schedule.
- Changes to key positions within the project organisation

In our experience this transition aspect is too often underestimated and rarely adequately reflected in the updated project schedule resulting from the due diligence used for business case justification. In our experience this may easily account for 3 to 6 months delay in particular if the due diligence and the transaction take time to be put in place. This will have an impact on the overall business case and financing cost. It thus must be accounted for explicitly.

Summary

Taking over a project in the middle of its development phase is a sensitive issue and certain project management key aspects must be particularly evaluated by the new owner during its due diligence. The execution strategy may need to be updated as well as the risk analysis to account for the impact of the new owner circumstances on the project. Many owners also underestimate the impact of the actual transition of the organisation as a result from the transaction, which will necessarily have an impact on the overall project schedule.