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BLOG

Slow Growth in Revenues for Environmental Consulting Firms Suggests Some May Reconsider the Value of Due Diligence Work

JANUARY 11, 2018

Environmental consulting firms (EC Firms) are vital to the due diligence practice of environmental lawyers who assist in corporate transactions. Recent trends among these firms, however, suggest potential changes in the lineup of firms that provide these services. As EC Firms are purchased by engineering and construction firms, their service areas may be narrowed to fit more closely with the firms that purchase them. Meanwhile, slow revenue growth may cause some EC Firms to shift their focus to higher revenue generating service areas like managing remedial work and construction projects, at the expense of transactional diligence.

Overall, the past five years have been a challenge for EC Firms. In 2013 and 2014, global revenues for environmental consulting shrank. This decline was likely caused in part by falling oil and gas prices, as oil and gas companies are key clients for many EC Firms. But in response to the slump and subsequent volatility in oil and gas prices, oil and gas companies are shifting toward a general energy business model, and firms that support them, including many EC Firms, are shifting with them. Over the past several years, we've seen multiple engineering and construction consulting firms acquire EC Firms so they can help oil and gas clients transition to this general energy business model.

Additionally, the combination of EC Firms and engineering and construction firms has the opportunity to create value in other ways. In August of 2017, Jacobs Engineering, an engineering and construction firm that historically had a focus in the petroleum and chemical industry, announced its intent to acquire CH2M Hill, an EC Firm with an established practice in the infrastructure and government service sectors. In a press release dated December 18, 2017, Jacobs suggested the combination would position the company to be a global leader in government, infrastructure, and industrial services.The press release also indicated that the combined company would streamline its operations to three lines of business, which did not include environmental due diligence.

This merger points to another trend affecting the environmental consulting industry. In a report published in early 2017, Environment Analyst marked infrastructure and development as a major growing client sector for EC Firms, and with it, the service area of sustainability. Meanwhile, in Environment Analyst's 2017/18 Global Market Trends Survey, published in September 2017, EC Firms indicated that they expected significant increases in work related to contaminated land/remediation, waste management, chemical/pharmaceuticals, and transportation. In the same survey, these firms estimated relatively slow growth for environmental consulting overall, projecting 5.4% compound annual growth over the next five years on a global scale.

Notably absent from discussions of growth areas for EC Firms is transactional due diligence. Environment Analyst reported that in 2015, environmental management, compliance, and due diligence made up just 15% of environmental consulting revenues, while contaminated land accounted for 33%, water and waste accounted for 23%, and environmental impact assessments and sustainable development accounted for 17%. Given the anticipated growth areas above, diligence may represent a shrinking portion of revenues for EC Firms. As such, we may see some of these firms begin to focus their efforts on other service areas that generate more revenue.

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