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Mergers and Acquisitions, Nonprofit Style

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By Sophia Banay

Former Lazard banker Sandy Lamb now dispenses her advice in the public sector.


Photograph by: Robert Caplin

The 92-year-old Irvington Institute for Immunological Research was in trouble. Donations were down, overhead was too high, and the fellowship-granting institution was worried about staying afloat. In 2006, after considering several alternatives—including expanding its board of directors to generate more funding and disbursing its remaining funds before closing up shop—Irvington's executive director proposed to the board that it merge with another nonprofit. Deciding this was the best option, the board agreed.

To negotiate the ins and outs of the deal, Irvington sought out Sandy Lamb, an investment banker who spent the first 20 years of her career at the boutique investment bank Lazard, where she advised clients like Colgate and Halliburton on all types of spinoffs and merger activity. Over the next three months, Lamb set up face-to-face meetings with eight potential partners. Among them was the Cancer Research Institute, another fellowship-granting group based in New York, but one with better funding—a $13.5 million annual budget and $41 million in assets.

Lamb oversaw the drafting of the merger agreement by each group's lawyers and responded to due diligence requests from the C.R.I. By October 2007, the merger, valued at roughly $11 million, was finalized, with C.R.I. taking ownership of Irvington's assets—such as a building on Second Avenue worth about $8 million—as well as its liabilities, including office expenses.

"The fellowships will continue, there will be more of them, and donors will be cultivated," says Lamb proudly.

Once solely the domain of the private sector, mergers and acquisitions are becoming increasingly common in the nonprofit sector, as more organizations compete for a finite pool of charity dollars. There are now approximately 1.5 million nonprofit organizations in the U.S., including charities and private foundations, as well as labor unions, trade associations, veterans organizations, and recreational clubs, according to Tom Pollak, program director for the National Center for Charitable Statistics at the Urban Institute in Washington.

Many of the existing groups espouse overlapping causes and therefore tussle for funding, staff, and media coverage. Confronted with such problems as a decline in funding or loss of a longtime executive director, a merger is often the best solution. Pollak says there's no hard data on the number of nonprofit mergers occurring today, but anecdotally, mergers among nonprofits do seem to be on the rise. He himself has had firsthand experience of the trend as a board member of two groups that both absorbed smaller organizations: a community pool and a child welfare organization.

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Michael Clark, executive director of the Nonprofit Coordinating Committee of New York, which provides information for New York nonprofits, has also recently observed more merger activity locally, especially among foster-care and youth-services agencies. As an example, he points to Good Shepherd Services, a social-services agency that has merged with several other agencies in the past few years. Clark says that mergers are often helpful in generating new funding, since the newly formed group is often judged to be more stable and effective.

"Funders are very attracted to mergers because they get more bang for their grant dollar," says Clark. And people like Lamb, who have experience in guiding and negotiating these types of deals in the corporate arena, are starting to advise the growing number of nonprofits looking for a partner.

After two decades in investment banking, Lamb felt an urge to do something different. She decided to take a paid sabbatical from Lazard and spent a year chairing the board of the New York Women's Foundation, which piqued her interest in the nonprofit sector. She soon realized she could apply her banking skills and experience to nonprofits, the number of which were continually increasing despite a chronic lack of funding.

"I looked at the market and saw I could fill a need," says the 62-year-old Lamb.

After adding more clients by referral, she founded Lamb Advisors in mid-2003 and discovered that corporate refinancing in the public sector is not that different from private-sector deals. In both cases, she has to present strategic alternatives to her clients, get buy-in from each organization's board, find the right partner, and help negotiate the terms. According to Lamb, the main difference is timing: Nonprofit mergers take longer to execute because there's no market pressure or potential competitors lurking in the background, as in the private sector. In addition, nonprofit executives don't have the huge financial incentives to merge that private-sector execs often have.

Lamb's first client, back in 2002, was the Creative Arts Team, which uses live theater to engage public school children. It needed to spin off from New York University, its sponsor and host for nearly 30 years. When N.Y.U. decided to end its sponsorship, C.A.T. asked Lamb to step in as transition leader. She contacted seven colleges and universities to gauge their interest in sponsoring C.A.T., and eventually the City University of New York, which saw a fit with its own public education goals, agreed. After supervising the group's moving day, Lamb went on to oversee C.A.T.'s hiring of a head of development and a new C.F.O. and helped with its adjustment to a smaller revenue stream.

C.A.T. paid for Lamb's services out of a five-figure-per-year grant from the United Way. These days, Lamb typically charges a low-to mid-five-figure fee per transaction if she can gauge the length of a project in advance. Otherwise, she charges $200 an hour.

Despite the considerable pay cut she has taken to pursue her new career, Lamb says she "misses nothing" about the private sector. And she doesn't anticipate a shortage of work anytime soon. "As hedge fund, private equity, and investment banking money continues to stream into the nonprofit sector, it's changing the nature of what the donor is asking—that is, 'How are you spending my money and could you spend it more efficiently?' " Lamb says. That dynamic, plus the prospects of an economic slowdown causing a dip in funding, means more nonprofit mergers and acquisitions are likely in the offing.

Lamb, president and CEO of Lamb Advisors (www.lambadvisors.com), has more than 35 years of Wall Street, corporate, and nonprofit experience addressing financially complex and critical strategic issues. Prior to establishing Lamb Advisors, Lamb spent 20 years at the investment bank Lazard Freres & Co.