M&A: Not Just for the Corporate Set

By MELANIE GRAYCE WEST

During merger talks involving Dance Theater Workshop and Bill T. Jones/Arnie Zane Dance Company in 2010, the parties hit a roadblock. The planned merger would mean the loss of two positions, but no one was willing, or able, to cover the severance pay.

At that moment, New York-based SeaChange Capital Partners and the Phoenix-based Lodestar Foundation stepped in with a $93,000 grant. It was enough to clear the hurdle and keep talks moving forward.

It was in that transaction, and several identical ones across the country, that SeaChange came up with a renewed focus: to bring the mergers and acquisitions process common in the financial sector to the city’s nonprofit world.

On Tuesday, the organization will announce the launch of a $1 million New York City Merger, Acquisition and Collaboration Fund to make it easier for charities to combine their efforts.

That includes grants for crucial but often uninspiring expenses: legal and accounting services, real-estate changes, severance for an outgoing executive or travel for meetings.

"We’re looking to remove obstacles so that natural things can happen," said John MacIntosh, a partner at SeaChange Capital and head of the new fund.

The creation of a pool of money for mergers of New York charities follows a number of other similar, regional funds that exist nationwide. Many emerged in the past decade as nonprofits looked to become sleeker, especially after private donations plunged during the recession.

"There are a number of philanthropic organizations that do very good things but have overlapping objectives and overlapping spheres of operation," said fund donor Martin Lipton, a founding partner of New York-based Wachtell, Lipton, Rosen & Katz and an expert in corporate mergers and acquisitions.

Mr. Lipton, also the chairman of the board of trustees of New York University, called the creation of a New York City merger fund "greatly overdue."

SeaChange was founded in 2007 by two former Goldman Sachs partners as a kind of investment bank for nonprofits, pulling together donations and channeling large chunks of money to high-performing organizations that served children and wanted to grow.

In 2011, and as co-founder Charles Harris left to join the Edna McConnell Clark Foundation, the nonprofit turned its focus toward mergers by working with the Lodestar Foundation, said Jennifer Goldstone, a partner in SeaChange.

Making small grants was the best option for reorganizing the group, Ms. Goldstone said. "We didn't have a ton
of money to give away like we used to, but a little bit of money can be transformational and can make a more durable organization that can last many more years than, say, gobs of money into a growing organization that comes to the edge of a cliff," she said.

The success of the partnership with Lodestar led SeaChange to set out to create a fund just for New York charities.

Mergers often begin as whispers at the board or executive director level, Mr. MacIntosh said. The call to him, which is usually out of the blue, is often precipitated by a significant event such as the departure of an executive, or a change in the board or in funding.

Indeed, one of the roadblocks to a merger is when an organization waits too long and is in financial distress. Other times, the problems are more human: reluctance among staff worried about job losses, or personality conflicts that emerge during the long courtship period.

Not all merging charities are struggling. A national survey by the New York-based Nonprofit Finance Fund looked at 1,935 organizations and found 31 merged and another 267 collaborated to reduce expenses in 2010. And about half of those surveyed planned to collaborate with other organizations to increase programs.

Still, formal mergers in the nonprofit world typically take years, Mr. MacIntosh said. Many charities may have begun conversations during the depths of the recession, but unlike on Wall Street, there are no teams of lawyers or investment bankers to spur things along.

In addition to playing a role in the creation of New York Live Arts from last year's merger of Dance Theater Workshop and the Bill T. Jones/Arnie Zane Dance Company, SeaChange and the Lodestar Foundation worked to help blend WomensLaw.org and the National Network to End Domestic Violence and the Wellness Community and Gilda's Club, among others. The grant "really did allow us to complete a piece of transition costs that none of our other funders were interested in or able to cover," said Jean Davidson, the chief executive of New York Live Arts.

Even though the initial $1 million fund will finance some unflashy work for 10 to 15 mergers, it has attracted donors such as Jonathan Soros and several New York-based foundations, including the Clark Foundation, the Heckscher Foundation for Children, the Altman Foundation and the Robert K. Steel Family Foundation, among others. Mr. MacIntosh expects the initial fund to be a success and then to return to donors after the first round of grants.

Write to Melanie Grayce West at melanie.west@wsj.com