

The story behind the M&A numbers

Mergers and acquisitions tend to follow the expansion and contraction of the economy, hence the current slowdown in activity this year.

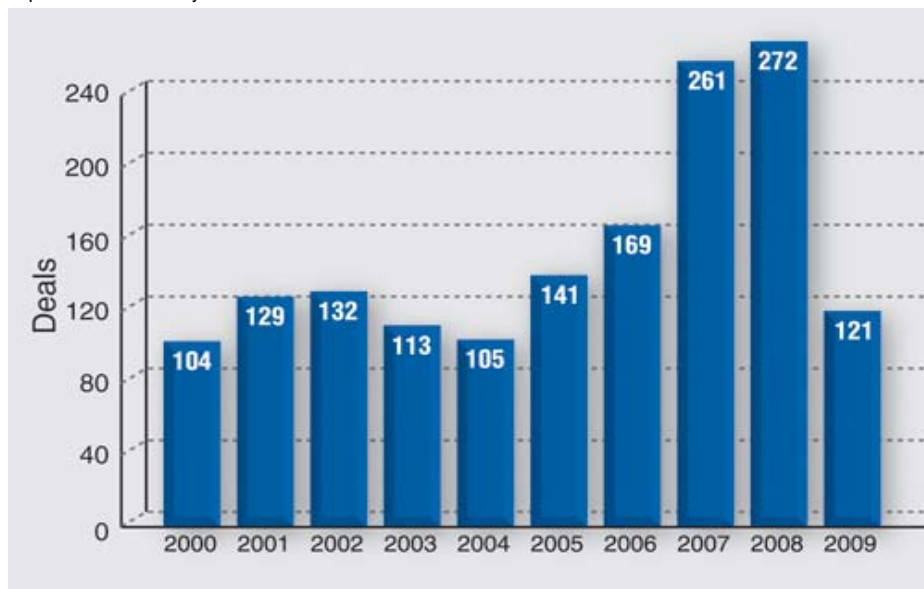
By Mick Morrissey, Morrissey Goodale LLC, Newton, Mass. -- Consulting-Specifying Engineer, 8/1/2009 1:00:00 AM CDT

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Almost one in five of the [Consulting-Specifying Engineer MEP Giants](#) merged with or acquired another engineering firm over the past year. And the merger and acquisition (M&A) activity of the top MEP engineering firms doesn't just involve them growing through the addition of outside firms. In May 2009, two of the MEP Giants—[Cannon Design](#) and [OWP/P](#)—announced their intention to merge with each other, resulting in a consolidation within the Giants themselves.

This M&A activity among the leading firms is indicative of a larger trend. There has been a considerable increase in the numbers of mergers in the architectural, engineering, and environmental consulting industry over the past few years (see [Figure 1](#)). After peaking at 132 deals in 2002, M&A activity declined through 2004 as the industry continued to feel the effects of the 2001 and 2002 recession. Facing uncertainty, firms curtailed their expansion plans and instead focused on strengthening their internal operations and balance sheets. M&A activity began to surge again in 2004, increasing steadily to a record number of 272 deals in the last year.

However, the record number of deals in the fourth quarter of 2008 masks a shift in M&A activity that reflects the impact of the current recession on virtually all aspects of the industry.



In general, M&A activity tends to follow the expansion and contraction of the overall economy pretty closely, hence the decline in the number of deals in 2003 and 2004 and the current slowdown in activity in the current year.

Year-to-date, the percentage of domestic M&A activity across state lines is up over last year. Interstate deals through July 6 account for 71% of all domestic transactions, compared with 67% in 2008. Historically, interstate M&A activity has ranged between 63% and 73% of all domestic activity. Interstate activity tends to be lower in years when the economy is strong and firms are constrained by their ability to hire quality staff. In those years, there is a greater tendency for firms to merge with or acquire smaller firms within their home state that they have a pre-existing relationship with to augment their staffing capabilities.

The states seeing the most selling activity this year are California (9), Florida (7), and Texas (6). Last year, 22 firms in California were sold, 12 in Florida,

and 18 in Texas. We don't anticipate seeing those numbers of deals this year.

Future growth

However, we expect to see industry M&A activity rebound more quickly after this recession compared with the 2001 and 2002 recession, expedited by the following two major trends.

Globalization: A review of the Web sites of the [Consulting-Specifying Engineer MEP Giants](#) reflects the growing globalization of the AEC industry. This trend also is reflected in the patterns of consolidation and concentration in the industry through mergers and acquisitions. Year-to-date, the percentage of U.S.-based architecture, engineering, and environmental consulting firm sales involving an overseas buyer is 15%. This is up from 9% in 2008 and more in line with the 15% and 13% seen in 2007 and 2006, respectively.

Despite an overall slowdown in M&A activity globally and in North America, cross-border deals as a proportion of the entire transaction base have increased year over year, demonstrating a trend in the shift of ownership of U.S. firms to non-U.S. entities. International buyers of U.S. firms this year have been from Australia, Holland, India, Canada, and the United Kingdom. We anticipate more overseas buyers making strategic acquisitions in the United States over the next two years to take advantage of opportunities driven by public and private investments in the domestic infrastructure sector and by innovation in the energy sector.

So far in 2009, overseas buyers of U.S. firms outnumber U.S. buyers of offshore firms by a factor of 3 to 2. This is a reversal from last year when U.S. firms made a total of 21 acquisitions overseas compared with 17 deals involving a U.S. firm selling to an overseas buyer.

Where have U.S. firms been buying this year? They've been buying in Mexico, Australia, Canada, and the United Kingdom. Cross-border M&A are facilitated by such factors as currency fluctuations or imbalances and relative economic outlook. Much of the cross-border M&A activity in 2006 and 2007 in the United States was facilitated by the fact that the dollar was relatively weak compared with other currencies at that time, and thus U.S. firms and assets were considered relatively cheap.

However, in 2008 and 2009, cross-border activity would appear to be driven less by currency issues and more by firms seeking to stake out or consolidate their position in a global market, such as the acquisition of [Malcolm Pirnie](#) by [Arcadis of Holland](#) to position the firm in the global water market. Arcadis is also the parent firm of [RTKL](#).

The growing importance of publicly traded firms: Publicly traded buyers, both domestic and international, represent 16% of U.S. firm transactions year-to-date. This is down from 20% last year, but above the 12.6% seen in 2007. So while the number of publicly traded firms in the industry is relatively small (only five of the [Consulting-Specifying Engineer MEP Giants](#) are publicly traded), the influence of these firms in terms of M&A is substantial and disproportionate

to their numbers.

The stock prices and price/earnings ratios of the publicly traded AEC firms surged from 2004 through October of 2007 along with the rest of the stock market. These factors allowed them to acquire smaller, privately owned firms, generally resulting in a premium for the shareholders of the selling firm. In the fourth quarter of 2008 and first quarter of 2009, most publicly traded buyers stood on the sidelines and pulled back on making acquisitions as the turmoil in the financial markets played out. A notable exception in this regard, however, is **Tetra Tech**, which has announced six acquisitions this year. However, it is expected that publicly traded buyers will begin to re-enter the market in the third and fourth quarters of this year, taking advantage of their recently resurgent stock prices (URS's stock price has increased 10.5% over the past three months, **Stantec's** by 11.9%, and **AECOM's** by 6.73%) to make strategic acquisitions. Early indicators of this anticipated uptick in activity are SAIC's July 6 announcement of its intention to acquire **R.W. Beck**, and **Willbros's** June 18 announcement to acquire the engineering businesses of **Wink Cos.**

While M&A activity is down approximately 30% in the short term as a result of the current recession, it is expected to rebound in 2010 and 2011 to 2008 levels, driven in large part by the twin trends of the globalization of the AEC industry and the continued expansion plans of publicly traded AEC firms.

MEP Giants 2009 merger and acquisitions data

Firm name	2008 MEP Giants rank	2009 MEP Giants rank	M&A activity
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For the most part, the acquisition of another MEP firm caused these companies to move up in the MEP Giants rankings. Those with an "x" did not qualify for the MEP Giants list last year.

Source: Consulting-Specifying Engineer

AECOM Technology Corp.	1	1	Acquired Earth Tech
Erdman Anthony	x	82	Acquired an un-named firm in the Hudson Valley of New York
Fishbeck, Thompson, Carr & Huber Inc.	72	84	Acquired Wetland and Coastal Resources (WCR)
Harrington Engineering / Legnos & Cramer		93	Acquired Legnos & Cramer in 2008
HDR Inc.	22	6	Acquired CUH2A
Interface Engineering	44	33	Acquired James D Graham & Associates and Bouillon Engineering
LEO A DALY	18	14	Acquired STH Architects
MAVERICK Technologies LLC	x	15	Acquired Mission Controls Inc.
NELSON	x	85	Merged with EE Linden Assocs.
Optimation Technology Inc.	37	26	Acquired Total Systems Design Inc.
PageSoutherlandPage	45	31	Acquired Christopher Carvell Architects
POWER Engineers	6	65	Acquired Visual Genesis
RDK Engineers	x	27	Acquired PWI Consulting Engineers
Schirmer Engineering Corp.	25	16	Acquired Risk, Reliability and Safety Engineering LLC
SSOE Inc.	11	10	Acquired Martell Assocs.
Stantec Inc.	10	8	Acquired Fuller, Mossbarger, Scott & May Engineers (FMSM); McIntosh Engineering; R.D. Zande; RHL Design Group Inc.; Rochester Signal Inc.; and Secor International Inc.
TLC Engineering for Architecture	20	23	Acquired Piazza Engineering Inc.
URS Corp.	2	3	Acquired Washington Group International in late FY07

Author Information

Morrissey is managing principal of Morrissey Goodale LLC, a management consulting and research firm that serves the AEC industry exclusively. An engineer by training, he has assisted numerous MEP firms in the areas of strategy development and implementation, leadership development and transition, technical and professional talent recruitment, ownership transition, and M&A.

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