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Joining Forces

by Mick Morrissey
May 1, 2010

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Mergers and acquisitions are changing the industry. How can you make the most of these trends?

Over the past decade, the number of mergers and acquisitions in the architectural, engineering, surveying and mapping industry has increased steadily and considerably (see Figure 1). After peaking at 132 deals in 2002 in the early part of the last decade, 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 as the economy expanded at a record rate, increasing steadily to a record number of 305 deals in 2008.



Last year, M&A activity fell by 25 percent from a high of 305 transactions in 2008 to 230 deals in 2009—a level last seen in 2006—and the bottom has not yet been reached. Combined, January and February of 2010 saw a total of 43 transactions, compared with 49 for the same period last year. This is not surprising since M&A activity tends to follow the expansion and contraction of the overall economy in general pretty closely, as evidenced by the decline in the number of deals in 2003 and 2004 after the last recession in 2001. But even with this short-term slowdown in consolidation activity, the current level of activity is still double what was seen after the 2001 recession, indicating just how prevalent mergers and acquisitions have become in this industry.

Although the first six months of 2010 are expected to continue to be sluggish in terms of industry consolidation, this trend will likely change by the second half of the year. Overall, we predict that between 250 and 260 deals will be made in 2010.

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Figure 1. Global Architectural, Engineering, Surveying and Mapping Industry M&A Activity: 2000 through 2009

On the Front Line

A number of discernable trends are apparent from last year's deals. Although some of these are likely tied to the recessionary environment, others are indicative of longer-term industry changes and shifts.

Trend No. 1: Firms Pursue More "Defensive" Deals

Probably the biggest surprise trend emerging from all of the merger and acquisition activity in this recession is that interstate M&A activity--deals involving a firm headquartered in one state acquiring or merging with a firm headquartered in another state--has fallen to its lowest level on record. In 2009, 58 percent of deals occurred across state lines.

Historically, interstate M&A activity has accounted for between two-thirds and three-quarters of industry consolidation in the United States, representing strategic growth and expansion associated with a growing economy. Last year, however, the recession clearly forced management teams to consider more "defensive" mergers or firm sales. Many more firms are consolidating with companies in their own counties and states to pool together their strongest features and assets and trim underperforming elements so they can defend their core geographic market or region.

Notable deals reflecting this trend among surveying, mapping and GIS firms include the following:

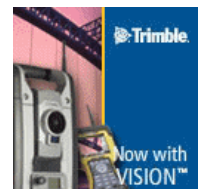
- January 2009: AR Decker and Associates (Troy, Mich.) merged with JL Bishop Land Survey (Pontiac, Mich.)
- January 2009: Krebs Architecture & Engineering Inc. (Birmingham, Ala.) acquired civil engineering and land surveying company Lucido & Oliver Inc. (Montgomery, Ala.).
- April 2009: Digital Geographic Technologies (Boston) completed its acquisition of engineering and survey firm Gunther Engineering (Boston).
- June 2009: Engineering and surveying firm CLD Consulting Engineers (Manchester, N.H.) acquired the intellectual property and information assets of survey, design, and permitting firm True Engineering, Inc. (Bedford, N.H.).
- October 2009: Multidisciplinary engineering firm BKF (Redwood City, Calif.) merged with civil engineering and land surveying firm Carlenzoli and Associates (Santa Rosa, Calif.).
- October 2009: Multidisciplinary engineering firm Bowman Consulting (Chantilly, Va.) acquired engineering, land planning, and surveying firm Huntley, Nyce & Associates (Chantilly, Va.).
- November 2009: Civil engineering, surveying and environmental sciences firm Engineering Resource Associates (Warrenville, Ill.) acquired structural engineering firm Frauenhoffer and Associates PC (Champaign, Ill.).

As the recessionary environment ameliorates and the economy recovers, interstate deals should return to their pre-downturn levels. However, we expect to see a continued high level of defensive consolidation through 2010, particularly in overbuilt and

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hard-hit markets like Florida, Nevada, Arizona and California.

Trend No. 2: Publics Play a Smaller Role

Publicly traded industry giants were relatively less active in 2009 than in prior years, representing just 31.3 percent of global deals in 2009, down from 36.7 percent in 2008 and almost 35.7 percent in 2007. The most active publicly traded acquirers last year (and the number of deals they made) were Genivar (11), SNC-Lavalin (6), TetraTech (6), Fugro (6), AMEC (6) and AECOM (5). The same trend held for the U.S. market, where only 20 percent of the deals involved a publicly traded buyer, down from 21 percent last year and almost 30 percent in 2007.



Surveying and mapping deals involving publicly traded buyers last year included:

- January 2009: Tetra Tech Inc. (Pasadena, Calif.) acquired Wardrop Engineering, Inc. (Winnipeg, Manitoba, Canada), a firm that specializes in resource management, energy, and infrastructure design and high definition surveying.
- March 2009: International engineering and project management company AMEC (London, UK) acquired civil, surveying, municipal and structural engineering firm Philips Engineering Ltd. (Burlington, Ontario, Canada).
- June 2009: Fugro (Leidschendam, Netherlands) acquired the Tenix LADS business from Tenix Pty Ltd. (Melbourne, Australia). Tenix LADS is a leading global provider of airborne hydrographic services.
- December 2009: International professional services firm AECOM (Los Angeles, Calif.) acquired civil engineering, planning and GIS firm Glatting Jackson Kercher Anglin Inc. (Orlando, Fla.).

The number of deals involving publicly traded buyers will likely start to rebound in 2010 as share prices reflect the runup in the markets over the second half of last year.

Trend No. 3: U.S. Market Remains Attractive as Globalization Continues

Almost 13 percent of domestic transactions in 2009 involved a non-U.S. buyer, up from 9.4 percent in 2008. There were more non-U.S. firms buying into the U.S. in 2009 (19) than there were U.S. firms making acquisitions overseas (11), reversing a trend seen in 2009. This reversal occurred for two reasons. First, the relatively weak dollar makes U.S. assets cheaper than non-U.S. assets, so that acquiring a U.S. firm becomes a relatively inexpensive way to increase market share. Second, although the U.S. economy's recovery is trailing that of other nations--particularly China, India and Brazil--the U.S. market continues to be a long-term target for international buyers because of its long-term infrastructure needs and business-friendly environment.

As the AEC market continues to globalize, we can expect to see more sales of U.S. surveying, mapping and GIS firms to international purchasers.

Strategic Planning

So what do all these changes mean for surveying and mapping professionals? First, if you own a business and are thinking about selling your firm this year, you might want to reconsider. The short-term decline in M&A activity has exerted downward pressure on firm values. If you're looking to get the highest price for your firm, you'll most likely need to wait until the economy recovers. Conversely, companies hoping to expand their business through a strategic acquisition are likely to find some good deals through 2010.

Second, whether you're a business owner or an employee, networking is more important than ever. Many individuals and firms are finding a competitive edge through partnerships rather than mergers.

As always, thinking strategically about your long-term goals while closely monitoring the trends can help you make the right decisions for a successful future.

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