Morrissey Goodale expects high deal volume

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Consolidation in the AEC industry continued its frenetic pace into 2008 with eight deals announced within the first 11 days of the year, according to Mick Morrissey, principal with Morrissey Goodale LLC, Newton, Mass.

The early indicators are that deal volume will be on pace with or exceed that of 2007. The AEC strategy and research firm looks to the year ahead and reviews 2007.

The year ahead

Morrissey Goodale expects deal activity to be flat this year and closely match the 200-plus deals of 2007. The slowing economy in 2008 will impact the plans of many buyers who are seeing a slowdown in their business for the first time since 2003. A number of acquirers will choose to pass on potential deals or defer strategic investments until the outlook becomes clearer and their backlogs improve. Also, given the challenges in the credit markets, public buyers, who in 2007 accounted for over a quarter of all deals, may scale back on their activities.

All of these factors will have a dampening effect on merger and acquisition activity in the industry. However, the fundamental drivers behind the consolidation of the past five years (firm owners and principals reaching retirement without internal ownership transition plans, the highly fragmented nature of the industry, the inability of firms to hire talent fast enough to meet strategic growth goals, and the attractiveness of U.S. firms to overseas buyers given the weakness of the dollar) will remain and will continue to support deal activity at or close to last year's levels.

A full listing of all transactions recorded in 2007 and 2008 can be found on the AEC M&A Monitor at the firm's **Web site**.

2007 in review

Deal volume at all time high: The number of transactions in the industry reached a record 216 in 2007—an increase of in excess of 26% over the prior year. In 2007, it seemed as if every president or principal you knew in the industry was in the middle of due diligence, reviewing the financials of a target firm, or considering an "unbelievably rich" offer from a buyer.

Globalization is here to stay: Close to 17% of the 151 firms sold in the United States last year were purchased by an overseas buyer. Who bought into the U.S. market in 2007? Canadian firms led the way with 15 deals; British firms were next with five acquisitions; and other international buyers included the Netherlands, Denmark, Australia, and India. Last year, international firms bought into the United States at twice the pace that U.S. firms bought overseas. A full 20% of transactions in 2007 occurred outside of the United States involving both an overseas buyer and seller.

More than one-quarter of all transactions last year included a publicly traded company as the buying entity. This represents the highest number and percentage of deals involving publicly raised capital in the industry ever.

Hottest domestic markets: In 2007, the following states saw the greatest

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volume of inbound deal activity: California (18), New York (13), Texas (9), Florid Colorado (6), Indiana (5), and Louisiana (5). Not surprisingly the states seeing the greatest increases in population—California, Texas, and Florida—all saw a significant number of firms sold in 2007. Of interest is the strong merger and acquisition activity in the Rust Belt and Northeast states (Pennsylvania, Ohio, Indiana, New York, and New Jersey) that are seeing relatively weak population growth.

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