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## A design to combine

Business mergers among firms were up 26 percent in 2007 reflecting pressure for geographic growth at a time when it's tough to hire qualified people

Sacramento Business Journal - by [Robert Celaschi](#) Correspondent

Architecture and engineering firms merged at a record pace worldwide last year, and even with a weaker economy, this year looks likely to match it.

Strategy and research firm **Morrissey Goodale LLC** of Newton, Mass., as of mid-January had identified 216 deals involving such companies globally in 2007, up more than 26 percent from the previous year. The firm has logged eight more mergers and acquisitions just in the first 11 days of 2008, and is still collecting data on under-the-radar 2007 deals.

California historically has had the most mergers in the United States, said principal Mick Morrissey. Major deals in and around Sacramento included **ICF International Inc.** of Fairfax, Va., agreeing last month to buy **Jones & Stokes Associates Inc.**, this area's largest environmental consulting and engineering firm, for \$50 million. Engineering firms **Wood Rodgers Inc.** and Integrated Design Group likewise merged.

Architecture firm Oshima & Yee merged last year with Murray & Downs to form Anova Architects, making it the region's second-largest architectural firm. **Chong Partners**, a San Francisco architectural firm with a Sacramento office, became part of **Stantec** of Edmonton, Alberta, which has both engineering and architectural divisions.

And early this year Stantec took out its checkbook again to scoop up **Secor International Inc.** Based in Redmond, Wash., Secor had 83 employees in Sacramento.

On the whole, a slower economy in 2008 should flatten out merger activity at the current high level, Morrissey said.

"There are still buyers in the market, but they are inexperienced. The valuation will be



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challenged as well. But the fundamental drivers are still there," he said.

### **Speedy growth, scarce talent**

Both buyers and sellers are feeling pressure to make deals these days, said Michael Strogoff, of **Strogoff Consulting** in Mill Valley. He helped guide the Anova deal, along with many others last year.

"Large firms need to expand to sustain their growth. Many of them have saturated their own markets," he said. "They know from experience how time-consuming or expensive it is to start from scratch in a new market."

Within California that used to mean firms from both the north and south looking toward the Central Valley. Now the California firms are looking across the state's borders into Arizona and Oregon, and beyond.

That dovetails with the findings of a member survey done last year by the **American Institute of Architects**. More than 40 percent listed "opportunities to open new markets to promote future growth" as a top reason to consider a merger. Other reasons getting at least 10 percent of the responses included diversifying as a hedge against construction cycles -- especially among residential architecture firms -- and getting unique credentials.

Morrissey Goodale also has been tracking a lot of firms in the Midwest, Northeast and Rust Belt that are trying to merge their way into areas where the population is still growing. It's a risky strategy but preferable to struggling in a low-growth geography, the research firm said.

Even if a company wanted to grow by hiring, it's tough to find enough talent.

"It's probably the single largest challenge the industry has faced," Strogoff said.

On the seller's side, architecture and engineering are feeling the effects of baby boomers hitting retirement age.

"A lot of people are looking ahead and saying, 'What is my exit strategy?'" Strogoff said. In the past, the strategy for a small practice might have been to simply close up shop. Today there are too many liability concerns. If a new firm doesn't take over, the liability follows the person who signed the drawings, and that person needs liability coverage for up to 10 years, he said.

As more firms merge, it gets harder for a small outfit to stay competitive. That adds to the pressure to grow fast.

For the past few years it has been a seller's market, but Strogoff sees that slowly leveling off.

"As more owners of small firms look to retirement, it's going to be a buyer's market," he said.

### **Globalization**

The local deals illustrate another pair of global trends.

As with Chong becoming part of Stantec, more architects and engineers are working for a

foreign boss. Almost 17 percent of the 151 firms sold in the United States last year went to an overseas buyer, according to Morrissey Goodale. Canadian firms were the most active.

International firms bought into this country at twice the pace that American firms bought overseas. And one of five deals worldwide didn't involve a U.S. company at all.

With the dollar weak against foreign currencies, it's less expensive for international firms to go shopping in the United States now, said Strogoff. They're getting U.S. design expertise at a discount.

The Jones & Stokes merger makes it part of publicly traded ICF International (Nasdaq: ICFI), illustrating another trend: public buyers.

"Since 2002, the end of the last recession, this has been an industry that has been pretty much in favor on Wall Street," Morrissey said. "The publics are driving a significant amount of activity."

A public company was the buyer in more than one-quarter of all the transactions last year. Given the challenges in the credit markets, they may play less of a role this year, Morrissey said.

### **The right fit**

Stantec's Lou Viani has seen mergers from both ends of the deal. He came to Stantec in 2001 as one of the partners who sold **Spink Corp.** Today he manages Stantec's architectural group in Sacramento.

"I don't know if the right word is 'pressure' as much as it might be a smart tactical move," he said of the desire to sell Spink. "We were a successful engineering and architectural firm, and we realized if we were going to grow in any kind of an effective way, we probably had to tie our star to something larger."

Stantec was a match because, like Spink, it was a full-service firm. It was a matter of finding similar corporate DNA, he said.

With the Chong deal, it was again a case of strategy. "Architecturally, in Canada we are very strong in health care and postsecondary education. We needed to be able to tap those markets in California. And it's really kind of difficult to grow that," Viani said. "By acquiring a firm like Chong, which has a significant reputation in health care, we are now a major player."

Anova grew out of Murray & Downs' desire to add expertise, said principal Charles Downs. Oshima & Yee was a good merger candidate because the two firms had clients in common and had worked together on projects.

"For us it's not necessarily that bigger is better, but having the depth to be able to compete against the bigger boys from out of town is a big part of our motivation. There is no need for clients within our region to go outside to seek expertise and depth to execute a large project."

This merger is enough, though. He doesn't want to see Anova become part of a national firm

even though he's fielded calls from time to time.

"They are looking at the Central Valley and Sacramento valley as a potential market," Downs said. "But I think there are a lot of advantages in having a locally grown and owned firm."

There are two schools of thought on that point. Strogoff said as client companies become larger, operating in multiple states and even multiple countries, they often prefer to work with architects and engineers that also have a presence in the same set of markets.

"There is some merit to that," Viani said. "I think it's a plus, but some clients don't want to place all their eggs in one basket."

In Sacramento, at least, there may be enough room for both approaches. Viani talked of projections that show the Sacramento region doubling in population over the next two decades.

"I look out the window. It's telling me that of everything I see, there will be twice as much in 20 years," he said. Much of what's already out there will have to be renovated over that same period.

At that rate, there may be room for some startups, too.

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