McGraw_Hill CONSTRUCTION ENR

# Industry Merger-and-Acquisition Activity Is Gaining Steam

09/08/2010

*By Debra K. Rubin, with Laura Raskin*

Lots of buyers with lots of cash, in this country and from abroad, as well as motivated sellers, are fueling a rebound in merger-and-acquisition activity so far in 2010. While it may not yet equal explosive pre-recession rates, the M&A boomlet is being pushed by new catalysts, along with continuing market and regulatory uncertainties, observers say.

"Defensive deal-making continued to be the hallmark of M&A activity through the first half of the year," says Mick Morrissey, principal of Morrissey Goodale, a Newton, Mass., management consultant. "By the end of June, the pace of industry consolidation had stopped declining." While numbers remain 27% below their 2008 high point, "we anticipate the pace of consolidation to accelerate through the second half of 2010," he adds.

Morrissey says firms are using M&A strategy "to consolidate positions in a tough market; bargains are being picked up locally through acquisition of distressed firms." Others see more M&A activity among small and medium firms, which traditionally had avoided it.

"By our tracking, industry M&A activity is up 20% in August from the same period in 2009," says Steve Gido, Washington, D.C.-based principal and M&A specialist at Rusk O'Brien Gido & Partners. "A number of talks and proposed deals were tabled in 2009 due to paralysis over business climate and then resumed again heading into 2010. Buyers are active again and seeking to resume ways to jump start growth and take market share by playing offense." He adds that some sellers who delayed taking action or "failed ownership transition and exit strategy planning see this as a good time to sell with valuation multiples in some sectors somewhat resilient."

Slowing industry growth overall actually is fueling the buying spree. Firms' solid profit margins and reduced working-capital needs leave them with more cash, observers say. "Many firms have been 'hoarding' this excess cash or paying off their debt," says an August report by New York City-based M&A and business consultant EFCG.

"Unlike, perhaps, many other industries, capital availability for acquisitions has not been a constraint for buyers, even though credit markets have not been nearly as liquid as before the recession." EFCG sees 2010 transactions as being "much closer to the peak years of 2007 and 2008," based on current "assignments," says Managing Director Andrej Avelini.

Edmonton, Alberta-based Stantec Inc. is among the industry's recent high-profile buyers. It said on Aug. 26 it intends to acquire San Francisco architect Anshen + Allen for an undisclosed sum, a transactin that would be the engineer-architecture firm's eighth acquisition in 2010.

Stantec spokesman Jay Averill says the blitz is not intended to take advantage of firms in peril. "Now that the economy has found its feet again, it's easier for firms to talk about the future," he contends.

Cross-border deals, particularly involving Canadian, European and Australian buyers, have become a big trend. Morrissey-Goodale says non-U.S. firms were involved in 16% of all domestic U.S. deals in 2010, the highest level in four years.

Trow Global Holdings Inc., Brampton, Ontario, also reached across the border last month to pull Chicago-based transportation engineer Teng and Associates Inc., into its growing corporate group. The move will more than double the Canadian firm's U.S. presence to 900, says Vlad Stritesky, president and CEO of Trow, which has 3,600 staffers globally. Teng President and CEO Ivan Dvorak is set to remain in those positions, says a spokesman for its new parent. "Joining Trow Global opens many doors for our firm and we will further strengthen our position in the American market," he says.

"Globalization will be more than a two-way street—U.S. to overseas and overseas to U.S.," says Morrissey. "Rather, it will be like the traffic circle at the Arc de Triomphe in Paris, with many cross-border permutations." He and Avelini also see more buying activity in North America from Chinese, Korean and Indian firms.

Hobson Hogan, M&A expert at consultant Zweig White, Wayland, Mass., says there could be a flurry of deals by year-end as sellers seek to beat the higher capital gains taxes that are expected in 2011.

Gido also notes a "very active summer" for M&As among large publicly-traded firms such as Stantec, URS Corp., Tetra Tech and AECOM, with "balance sheets and access to cash and integration experience to make transactions happen. Will all these deals be wise? Time will tell."

**Copyright © 2006-2008 The McGraw-Hill Companies - All Rights Reserved.**