BUSINESS

AECOM Purchases Ellerbe Becket

Merger of two fiscally strong firms stands out in shaky design and construction economy

by Zach Mortice

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Summary: In a merger that harkens back to the design and construction industry consolidations of large firms two years ago, the engineering, planning, and architecture firm AECOM has purchased Ellerbe Becket. The terms of the deal were not disclosed. Announced last week, the acquisition stands out in today's depressed design and construction economy, as most firms lack the cash reserves to make such purchases.

Like these previous mergers, the AECOM–Ellerbe Becket deal involves a large, multidisciplinary firm with access to a wide range of geographic markets buying up a sizeable and well-known design practice. Minneapolis-based Ellerbe Becket will be able to take advantage of the international reach of industry giant AECOM, which operates in more than 100 countries and employs 44,000 people. Ellerbe Becket (which employs 450 people) only has international offices in the Middle East, and partnering with AECOM will allow them to build up a presence in other emerging markets that would be difficult to grow into organically, like China.

"We were concerned long-term that we needed to diversify in both practice type, but also geographically," says Ellerbe Becket CEO Rick Lincicome, AIA. Los Angeles-based AECOM will get a well-established design brand and specific program expertise in areas that are likely to be stronger during the economy's long recovery period, like sports venues and, especially, healthcare facilities, which are 85 percent of Ellerbe Becket's portfolio.

The firm will now be known as AECOM Ellerbe Becket. There are currently no plans to close any Ellerbe Becket offices with the merger.

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Merging from strength

The AECOM–Ellerbe Becket acquisition recalls the mergers between RTKL and ARCADIS, as well as RMJM and Hillier in the summer of 2007. These boom-time collaborations saw larger firms sweeping up smaller ones for access to their design brand and to diversify their services and market reach. But with today's depressed design and construction industry, these kinds of mergers are the exception rather than the rule, says AIA chief economist Kermit Baker, Hon. AIA. "No one's got the cash to take those on," he says. "We haven't seen any mergers and acquisitions in the broader economy. Up until a month ago, we haven't really seen any initial public offerings."

A possible exception that might encourage mergers during depressed economic conditions would be if the company that is acquired had seen its price drop substantially, tempting other firms to swoop in and pick up a bargain. Both AECOM and Ellerbe Becket say that's not the case. Lincicome says that despite the poor economy, Ellerbe Becket has yet to lay off any workers, and their project backlog is higher than it was two years ago.

Joe Brown, AECOM's architecture and design chief executive, says Ellerbe Becket's financial strength was paramount to the deal. "That would be the only reason we'd be interested in it," he says. "We wouldn't acquire weak performance."

Ellerbe Becket made McGraw-Hill Construction's 2008 top 250 list of firms by revenue. With almost $90 million in architectural revenue, they were number 28. AECOM (which merged with landscape architecture firm EDAW in 2005), has also weathered the economic storm well. They sit at the top of the McGraw-Hill Construction list with $912 million in architectural revenue in 2008. Revenue for the firm's architecture and design practice was stagnant from last year to this year, but overall the company experienced revenue growth in 2009. In the 12 month period ending in June 2009, the firm (which also performs energy, economic, and sustainability consulting and logistical government services) had $6.1 billion in revenue. Brown admits to a bit of "cost containment" this year, but says that gaps in their private industry client base have been made up by public spending.

This merger and its complementary additions of expertise are not so much about the poor economic climate itself as about the surrounding market conditions that they instigated. "It's not so much about a terrible economy as [it's about] one that is dramatically shifting," Brown says. Thus, the merger with Ellerbe Becket will allow AECOM to function better in an economy that is more receptive to sustainability concerns, healthcare, and infrastructure projects, and economic stimulus-funded federal and public sector spending, he says.

“This is about sustaining the firm long-term; sustaining the people,” Lincicome says. “There were two reasons to do this. One was to better serve our clients in more places and, secondly, to make sure we weren’t having these cyclical layoffs and ups and downs and so on. This was a way to assure the long term sustainability of the firm.”

Finding a partner

Ellerbe Becket celebrated its 100th anniversary earlier this year, and Lincicome says the firm had originally intended to unveil the merger earlier in the year to coincide with anniversary celebrations. For the last two years, the Ellerbe Becket had been looking for potential partners with which to diversify their practice and began negotiating with other firms in the last year. Last fall’s stock market crash and economic meltdown caused them cautiously to step away from the negotiating table, but eventually AECOM invited them back for a deal before they finalized the merger.