

Engineering growth Fourth-quarter 2011 global engineering and construction industry mergers and acquisitions analysis

Special report:

*Using divestitures and
spin-offs to best position an
organization for growth*



Kent Goetjen

To our Engineering & Construction Industry readers:

Welcome to the latest edition of *Engineering growth*, PwC’s analysis of mergers and acquisitions in the global engineering & construction industry. In this report, you’ll find an overview of M&A in the sector during the fourth quarter of 2011 and our expectations for deal activity in the near future. Our report includes a special section on the impact of divestitures and spin-offs, increasingly viewed as essential strategies for helping companies better position themselves for growth opportunities.

PwC analysts point to several trends affecting the values and locations of deals in the E&C sector:

- Engineering and construction growth was restrained during the fourth quarter of 2011, negatively affecting the number and value of deals, as a result of market turmoil and political, economic, and social uncertainty. Deal activity was dominated by divestitures, spin-offs, and carve-outs, as companies made plans to exit unprofitable markets and adjust product mixes to reflect evolving customer demands.
- The global uncertainty also drove the dominance of local deals and retreat of financial investors from the M&A marketplace. Strategic investors mostly sought domestic acquisitions to achieve synergies in building construction, infrastructure, energy production, and energy efficiency.
- The US construction sector shrank 2.5% for the 12 months ending December 2011. That decline, along with a sluggish US recovery, reduced federal and municipal spending, and political gridlock drove non-US-affiliated deal activity during fourth-quarter 2011.
- Strategic investors, intending to gain market share, drove the quarter’s two mega-deals (transactions of more than \$1 billion)—the deal between Martin Marietta and Vulcan and the deal between Etex and Lafarge.
- Asia and Oceania led deal activity, driven primarily by the Chinese government’s investment in infrastructure and energy efficiency plans.



Jonathan Hook

With the European recession, turbulent financial markets, and sluggish global recovery restraining deal activity in the first two quarters of 2012, many companies may take a “wait and see” approach. But shareholders’ pressure to deploy cash abundance and generate greater returns likely will spur activity during the second half of the year.

We’re pleased to present the fourth-quarter 2011 edition of *Engineering growth* as a part of our ongoing commitment to providing a better understanding of M&A trends and prospects in the industry.

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Special report:

Using divestitures and spin-offs to best position an organization for growth opportunities

Global merger and acquisition activity has risen significantly in recent years, increasing to \$2.54 trillion in 2011, a 7.6% jump over 2010.¹ US M&A activity is expected to continue at the current pace through 2012, according to PwC analysts, and could accelerate if access to capital increases.² M&A activity has shown a rise in the number and value of divestitures and spin-offs. US divestiture deal volume as a percentage of total M&A volume increased to 36% in 2011 from 35% in 2010, according to PwC.³

While divestiture activity has increased recently, these transactions often are taking longer to close than in previous years, with some companies being forced to go to market several times before successfully striking deals with buyers. Also slowing such deals:

- Tighter lending standards for a smaller pool of buyers
- Investors made skittish by volatile stock markets
- Sovereign debt crises in Europe and the United States
- An uncertain economic forecast
- Shrinking government spend

More diligence is being required by third-party lenders and other constituents, and, overall, buyers have become more cautious. In the mid-size market, corporate buyers have been prepared to pay stronger multiples for the highest-quality businesses. Processes are also being structured to better benefit trade buyers, as vendors are able to provide them with more access to management and provide them with more time, although they expect to be paid for their synergies.

Buyers also are often more aggressive in seeking a price below the value sought by sellers. But many companies continue to view divestitures and spin-offs as effective strategies for shedding non-core businesses, rightsizing their organizations, and providing a platform for growth.

Spin-offs were on the rise in 2011 as an attractive way for companies to separate high-growth or low-growth components of the business from more traditional pieces of the organization. Some of these high-profile transactions included ITT's split into three publicly traded companies, Motorola's spin-off of its mobile-phone division, McGraw-Hill's spin-off of its educational unit, L-3's announced spin-off of several government services businesses, and Sara Lee's spin-off of its international beverage business. While in different industry sectors, these public transactions highlight the value creation.

With 33 deals reaching a disclosed value greater than \$50 million and a total deal value of \$7.29 billion during the fourth quarter of 2011, as compared with 65 such deals and a total \$26.83 billion deal value during the same period in 2010, the engineering and construction (E&C) sector is experiencing a period of reduced M&A activity. Divestitures and spin-offs accounted for more than 36% of deal activity in the sector during the fourth quarter, a pace consistent with overall market trends, resulting from the economy's pause during the third quarter.

When it comes to divestitures and spin-offs in E&C, negotiation complexities typically center on issues related to the value of the target's personnel and collective expertise. There are also challenges surrounding long-term contracts, including engineering contracts for project management, design and development, and physical construction. These are potential areas of opportunities and risks for valuation:

- Where are the contracts out?
- What is the buyer going to inherit, in terms of contracts?
- What is the history of claims?
- What change orders exist?
- What are the profitability trends?

¹ "On Wall Street, Renewed Optimism for Deal-Making," by Evelyn M. Rusli, *The New York Times*, Jan. 2, 2012

² "'Hunt for Growth to Drive 2012 US Mergers & Acquisitions,' says PwC US," PwC, 2012

³ "'Hunt for Growth to Drive 2012 US Mergers & Acquisitions,' says PwC US," PwC, 2012

Driving spin-offs and divestitures

Spin-offs, often one of the best ways to dispose of a business while preserving shareholder value, are a sound strategy for businesses with significant appreciated value, as a sale can trigger a large taxable gain. A spin-off is a tax-free transaction that allows shareholders to maintain their appreciated value without triggering a gain. Thus, shareholders are allowed to preserve capital gains treatment and control the timing of the realization of the gain. Following the repeal of the General Utilities Doctrine, a tax-free Section 355 spin-off may be the only remaining means by which a corporation can extract appreciated assets without paying corporate-level tax.

Selling a long-standing unit of a company can be a difficult, and often controversial, decision for an organization, particularly if members of the management team have ties to the unit being divested. But by selling a business unit that is no longer on strategy—because it may be poorly performing, in a contracting market, or simply no longer a priority—a company can raise capital to invest in its strategic priorities and allow that business unit to do the same, thereby enhancing overall shareholder value.

By taking such an approach, an organization can gain the financial resources to inject additional funding into its core business, thereby enabling it to refocus on essential aspects of the business that help define the organization and launch projects that may have been delayed. These initiatives can allow the company to improve its overall performance. The infusion of cash can also help a company shed its debt.

Additionally, certain sellers are interested in acquiring capital as companies look to restructure their balance sheets by building up cash reserves or paying down debt. Selling a high-performing or high-value business unit at a desirable price can go a long way toward helping a company achieve that goal.

Navigating a challenging process

Corporate sellers often delay making divestiture decisions because of the financial and logistical challenges of timing, valuation, and potential pushback from management teams running targeted business units. Participants in a PwC roundtable on divestiture strategies and solutions noted that failing to adequately consider these factors can contribute to a portfolio review that is poorly planned, in turn driving unhealthy or conflicting incentives across an organization. That dynamic can lead to institutional resistance to identifying divestiture candidates and can ultimately hamper or derail divestiture efforts. Timing, price, and ease are priorities that must be balanced when evaluating candidates for divestiture. Once moving forward with a divestiture, leadership and investors should focus on the future of the core business and on expediting the divestiture to limit executive and investor distractions.⁴

The road to closing, too, can be long and complex, with global economic uncertainty increasingly leading buyers to expect and demand more detailed data about a target company. More intensive and extensive due diligence is extending the divestiture process.

Companies in recent years have become aware of gaps in their approach to divestitures: Nearly half of the C-suite executives and corporate development directors responding to a PwC survey reported their acquisition process was better defined than their divestiture process.⁵ More than half of respondents in the same survey said that recent divestitures had taken at least 20% longer to complete than in previous years.

⁴ “Divestiture strategies and solutions,” PwC, 2009

⁵ “Divestitures in difficult times,” PwC, 2009

For a corporate entity, divestitures typically are far less common than acquisitions. Consequently, there are great challenges when it comes to effectively managing the process and drawing on their team's experiences. Significant value in any acquisition can be captured from acquiring the appropriate target and achieving planned synergies and effective integration to meet the prescribed business case. Many of these activities can be viewed as core capabilities of a management team accustomed to serial acquisitions. However, they are not as relevant to a divestiture.

The list of targets that a company would seek to acquire at the appropriate time and price is refined over the years, with management paying close attention to each target, some of which may be competitors. Identifying a complete list of buyers can be more challenging to management teams—for example, when suitable buyers may not be directly involved in the same industry but instead may be seeking to enter it.

Consequently, sellers are paying closer attention to how they manage the divestiture process, from start to finish. They frequently assemble a team dedicated to managing and executing the deal and the operational separation simultaneously.

To close deals and maximize the value of their assets, sellers are striving to gain a better, more comprehensive understanding of the complexities of the divestiture market. They are gauging the full scope of buyer concerns and responding to the global economic crises that have changed the rules of the game, requiring a tweak in strategies.

The overriding goal is to evaluate the business from a buyer's perspective and best position it for sale. Reducing or avoiding delays altogether can be essential to maintaining the desired value of the sale, as the longer a transaction takes, the more opportunity there is for value erosion.

Also critical is to prepare for separating the operations of the unit and the parent company as early as when deal preparations begin. Looking out for the unexpected, including dual-track transactions (sale or spin-off), can also be essential to ensuring successful deals.

Asking relevant questions up front

When planning a divestiture, an organization can enhance its chance of a successful transaction by asking and answering questions in specific areas:

- Who is the anticipated buyer? Public or private? Corporate? Domestic or foreign? Management? Financial buyers?
- How will the transaction team managing the divestiture be motivated or rewarded along with the executives who will be leaving the parent company to commence working for the acquirer?
- How complex is the anticipated divestiture, and the attendant separation of financial systems, people, and operations?
- What will a buyer request in regard to data and additional information?
- What are the risks, and has a plan been developed to minimize risks and surprises?
- What are the anticipated buyers' audit and financial reporting requirements?
- How will the process be managed, and what is the time line for the transaction?
- Who will manage the process, and does the company have adequate internal resources/knowledge?
- What ongoing transactions are to be expected with the divested operations, and how will those be handled?⁶
- What are the tax or other regulatory requirements that could result in potential additional costs or restrictions on how the divestiture is effectuated?

Divestitures and spin-offs in E&C have the greatest potential for breaking down over issues related to the revenue and profit potential of existing contracts, or the lack thereof. Sellers in these deals must be prepared to demonstrate that, going forward, profits will remain strong, despite the existence of any ongoing claims, change orders, and counter claims. Sellers must also ensure that employees will stay with the unit to complete existing contracts and acquire new contracts, despite the change in control.

⁶ "Generating Value from Corporate Divestitures in 2011," PwC, 2011

Human capital issues in these transactions can also be complex, as some E&C companies have existing agreements with various trade unions rather than having their own internal labor supply. That, in turn, will factor into how existing benefits and pensions will affect the deal. How will challenges be handled regarding how to handle employee benefit plans? These issues can be a source of value leaks on the sell side.

Employee retention is a central issue, too, in regards to pivotal employees. For example, several key client-facing employees may be essential to long-term relationships, a reality that's particularly true in the construction industry, where deals are traditionally tied to long-term professional relationships built over decades of networking. Thus retention is an issue that must be thoroughly evaluated and assessed during the due diligence period.

In short, successful divestitures and spin-offs in E&C, as in other sectors, hinge largely on adequate preparation, a thorough examination of the various risks and uncertainties, and the many moving parts of the deal. Sellers are required to have a distinctive point of view on the value of significant contracts, the future cash flow that will be delivered from them. They also must identify potential value leaks early, and be aware of those risks so that they can prepare for them proactively.

A seller looking to optimize the success of any given divestiture or spin-off will proactively prepare on a number of fronts:

Repositioning to seize opportunities

By employing a well-defined and regular portfolio process, a company can leverage significant opportunities for improvement in business and product portfolio optimization. Forward-thinking companies identify appropriate divestiture candidates based on financial, operating, and commercial parameters such as a business maturing or becoming ripe for sale due to restructuring or market factors; a business requiring a capital infusion or specialized knowledge that resides in the capacity of the portfolio company or company's

management; or the business is part of a larger acquisition and does not fit with the overall strategic plan of the company or its portfolio businesses.

After settling on a business to exit, the process begins in earnest by validating the case for separation. The process can encompass resolving such issues as:

- What is the best type of exit for my investors? Is it realistic?
- Which buyers in which markets are most likely to be willing and able to pay full price?
- Would a strategic partner add value? If so, which candidates are the best for the business to be divested?
- What scope of diligence on prospective buyers or partners is needed from both a financial and commercial perspective?
- Which deal structures strike the best balance between buyers' and sellers' needs?

Evaluating operations in advance

In today's environment, concerns that buyers might have overlooked in previous years can damage or even derail a deal. To best prepare for a divestiture, sellers conduct an assessment of operations and identify and correct any significant issues, such as unusually high back-office costs and plant inefficiency, and restructure options before going to market. Even if the issues cannot be corrected prior to closing, buyers are keen to gain a full understanding of the target's costs and benefits.

Walking in the buyer's shoes

Adopt a buyer's perspective by performing due diligence of the business before buyers are involved. A full review of the unit slated for sale can be essential when sellers' and buyers' pricing expectations vary significantly. Advance diligence can also help the seller identify and promote the unit's strengths and evaluate alternative transactions and structures from an informed perspective.

Buyers often are suspicious that executing a divestiture is merely a strategy for companies to rid themselves of a problem asset. To defuse that issue, sellers should be equipped to answer critical questions:

- Why is the asset for sale?
- Why has it been underperforming?
- Why is it expected to do well outside the company?
- How will the forecast be prepared?

Determining separation issues early during the process

Human resources, intellectual property, information technology systems, employee benefit plans, and other systems and processes that took years to create must be disentangled during a divestiture. The process includes the development of transition service agreements (TSAs), which provide for services between the seller and the buyer post-closing. Buyers will want not only to outline all of the issues and time lines involved but also to incorporate all TSA and post-TSA costs into their initial valuations.

Presenting the business in the most favorable light

Historical financial results often must be revised to accurately reflect the unit as a standalone unit and exclusive of non-recurring items. Those results should be clearly and convincingly described in a business plan that links in the forecasts and actions to drive profits.

For the most challenging divestitures to be successful, the vendor must develop a detailed business plan that can be presented to prospective purchasers. The plan will include a detailed analysis of the recurring historical figures and move to describe the forecasts and actions that need to be implemented. A vendor can make a divestiture more attractive to potential purchasers by using strategies such as providing them with contracts for a pre-determined time. Such incentives should be considered when preparing the business plan.

Sellers also should consider all of the various tax and accounting structures available to them and choose the one that works best from a deal perspective.

Moving quickly to minimize value deterioration

Divestiture transactions, as with acquisitions, can be lengthy processes. Depending on whether a carve-out audit was required and other buyer financing and regulatory requirements, a divestiture typically can take six months to a year, according to a group of corporate development executives surveyed by PwC. The long transaction period can be driven by the complexities of developing an accurate financial understanding of the business unit or carve-out, and disentangling its employees and operations from the larger corporate parent; the latter process can last another six months and tie up resources long after the transaction closes.

A long, cautious preparation period can be critical to a successful sell transaction. The journey to getting the asset marketed and ultimately off the company's balance sheet begins once a business unit is chosen for divestiture. While planning can prolong the time spent on a divestiture, it can save time and costs overall, as the process is likely to be more efficient once the seller goes to market.

Avoiding pitfalls

The divestiture process can be long, labor-intensive, and complex. Business development executives recently surveyed by PwC agreed on the need to avoid nine common pitfalls. Among the areas that can damage or derail a deal:

- Failing to understand your anticipated buyer profile
- Failing to address critical pension issues
- Failing to address critical financial reporting issues
- Lack of detailed credible support for the business plan
- Data reconciliation issues while going to market before vetting the numbers, requiring significant bridging from the confidential information memorandum (CIM) to the data room information

- Stranded cost identification
- Lack of risk identification and response
- Lack of a clear transition services plan as well as a vision for post-TSA period
- Lengthy divestiture process due to lack of structure or data preparedness⁷

The critical factor shared by companies achieving their goals for successful divestitures and spin-offs: extensive preparation. Unpreparedness can be costly. Sellers in some industries that found themselves startled by the speed and scope of the economic crisis discovered little bargaining power against buyers that could cherry-pick attractive assets and operations.

In many cases, negotiations moved too quickly to let sellers effectively argue the value of their assets, and having prepared too late, they had no alternative except to take what they were offered or scramble to survive during an extended process. Preparing early and effectively lets sellers act when necessary, retain negotiating power, and, most importantly, realize the greatest value from their divestiture.

⁷ "Generating Value from Corporate Divestitures in 2011," PwC, 2011

Key Tax Considerations

Tax consequences should be explored with divestitures in every country. These considerations vary and must be reviewed. The specific discussion of taxes in this report relates to the United States only.

There are numerous ways to structure a proposed divestiture, but considering tax efficiencies in advance may help maximize shareholder value. For example, if a divestiture is treated as a dividend to the shareholders, the result could be taxable income to the individual shareholder. Similarly, the sale of a business to a third party may result in capital gain to the seller. However, the US Internal Revenue Code provides several mechanisms that let taxpayers structure certain corporate divestitures as tax-free reorganizations and/or distributions. In particular, the use of spin-offs, split-offs, and split-ups may allow for the distribution of stock of one or more corporations to shareholders or other security holders without the recognition of gain or loss. The rules governing these types of transactions are highly technical and, to qualify, a taxpayer must meet certain requirements. Some of these include:

- **Active trade or business**—Either the distributed corporation or the distributing corporation (or, in some cases, an affiliate) must have conducted this active trade or business for five years prior to the distribution. Furthermore, both the distributing and distributed corporations must be engaged in the active conduct of a trade or business immediately after the distribution. This also means that both businesses must be able to demonstrate that they are viable standalone businesses post-split.
- **Business purpose**—The transaction is required to be carried out for one or more corporate business purposes. It should be noted that the principal business purpose cannot be to provide nonrecognition treatment of any gains or losses on the transaction. Depending on the facts and circumstances, acceptable business purposes may include providing an equity interest to certain employees, facilitating financing transactions (stock offering or debt borrowing), cost savings, resolving competition problems with customers or suppliers, or “fit and focus” (resolving management or other issues resulting from operating multiple businesses in one corporation/group of corporations).
- **Distribution of control**—When the distribution is made, the distributing corporation must distribute “control” (usually defined as 80% of the voting power and shares) of the distributed corporation.
- **Device test**—Similar to the business purpose analysis above, the transaction cannot be used principally as a “device” to distribute the earnings and profits of a corporation without garnering dividend treatment. The US tax authorities consider the facts and circumstances surrounding the transaction to determine whether this test is met, but a strong, non-tax corporate business purpose without a prearranged plan or intention by the distributees to sell stock post-spin generally is a favorable factor in this analysis.

Many additional federal, state, and foreign regulatory and tax requirements apply and should be analyzed prior to undertaking a corporate spin-off. Nonetheless, any corporation planning to dispose of a business line ought to consider whether a tax-free alternative is available.

Perspectives:

Thoughts on engineering and construction deal activity in the fourth quarter of 2011

Market turmoil and political, economic, and social uncertainty restrained engineering and construction growth and stymied the number and value of deals in the fourth quarter of 2011. As a result, the majority of the activity was from small, bolt-on acquisitions, which dropped the average deal value to low levels last seen in 2009. Divestitures, spin-offs, and carve-outs became a major trend in deal activity as companies aimed at exiting unprofitable markets and adjusting product mixes to reflect changing customer demands.

The US Census Bureau News, “November 2011 Construction at \$807.1 Billion Annual Rate,” released January 3, 2012, announced that in 2011, the US Construction sector shrank 2.5% on a year-over-year basis. This, combined with a sluggish US recovery, reductions in federal and municipal spending, and political gridlock, resulted in non-US-affiliated deals taking the lead in the fourth quarter.

Another result of the global uncertainty was the dominance of local deals and retraction of financial investors from the M&A marketplace. Strategic investors sought mostly domestic acquisitions as a source for synergies in areas such as urbanization, infrastructure, energy, and energy efficiency. Consolidation also provided companies in mature markets with the opportunity to reduce the intense level of competition.

There were two mega-deals (transactions with a value exceeding \$1 billion) this quarter: the deal between Martin Marietta and Vulcan and the deal between Etex and Lafarge. Both transactions involved strategic investors that intended to gain market share.

From a regional perspective, despite a slowdown in growth projections, Asia and Oceania led deal activity. Again, China was a major player in that region as a result of the Chinese government’s infrastructure and energy-efficiency activities.

Deal activity in the next two quarters is likely to remain restrained by the European recession, turbulent financial markets, and sluggish global recovery. While many companies might employ a “wait and see” strategy in the first half of 2012, shareholders’ pressure to deploy cash abundances and generate greater returns is likely to spur activity in the second half of the year.

Mature markets such as the United States and Europe are likely to continue to be the subject of further consolidation and divestitures as companies deal with decreased demand, slim growth prospects, and intense competition. On the other hand, BRIC countries and other emerging nations, particularly in the Asia and Oceania region, are likely to see a surge in deal activity. Countries such as Russia and India might also realize an increase in construction growth and a greater level of investor interest.

Commentary

Significant drop in deal activity

After a strong third quarter, global engineering and construction activity plummeted in the fourth quarter of 2011. The total deal number and value decreased almost 50% on a year-over-year basis, leaving the average deal value mostly unchanged. The European sovereign crisis, along with the global economic slowdown and the slower-than-GDP growth of the engineering and construction sector created an unfavorable environment for deal making. Furthermore, global turmoil stunted the already fragile engineering and construction demand. Fears for financial tightening and US political gridlock also pressured transactions.

As a highly cyclical sector, engineering and construction depends on sustainable economic growth and public and private spending. In the quarters to come, the increased level of uncertainty likely will keep deal activity flat during the first half of 2012.

On the other hand, E&C companies underwent a plethora of cost-reducing initiatives during the recession, which resulted in fewer players in the marketplace. Those players became leaner and more efficient, and built up strong, cash-rich balance sheets. This, combined with continuously increasing infrastructure needs in both mature and emerging markets, a push toward green building and energy efficiency, and shareholders' demand for greater earnings could create enough incentive for engineering and construction firms to engage in deals, especially in the second half of the year if uncertainty about the direction of the global economy begins to subside.

Deal activity by number and value of deals

Measured by value of announced deals worth \$50 million or more

	2009				2010				2011			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Number of deals	16	33	37	54	35	45	38	65	42	47	47	34
Total deal value (\$ bil.)	4.90	10.70	8.70	20.10	25.41	11.66	14.31	26.83	20.90	14.47	22.28	12.03
Average deal value (\$ bil.)	0.3	0.3	0.2	0.4	0.7	0.3	0.4	0.4	0.5	0.3	0.4	0.4

Non-US-affiliated deals continue to lead activity

Driven by a fragile US economy, slow employment growth, and diminished funding from federal and state governments, the number of US-affiliated deals continued to trend downward. Deals with US targets and/or acquirers accounted for only about 17% of the total deal number, but due to the contribution of one mega-deal, US-affiliated deals accounted for about 47% of deal value in the fourth quarter of 2011.

In the quarters to come, no significant change is expected in the top-line numbers of US-affiliated deals. On one side, US-based companies appear to have strong cash positions, which would give them the flexibility to engage in deal activity to speed up growth. On the other side, the growth of the sector is limited, especially given the Fed's efforts to reduce the deficit through cuts in defense spending. These further declines in public spending are likely to hit all segments of the E&C.

Non-US deals should continue to drive the activity given the expectation for stronger growth in emerging markets and the financial strengthening of companies within those markets. Additionally, consolidation within the mature European markets is likely to further increase the number of non-US-affiliated deals. The emergence of new players into larger deals, such as companies based in Malaysia and Indonesia, is likely to further contribute to the trend.

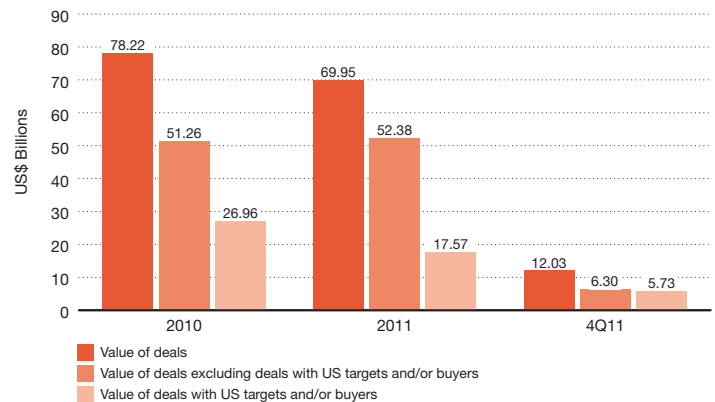
Deal activity by number of deals

Measured by number of announced deals worth \$50 million or more



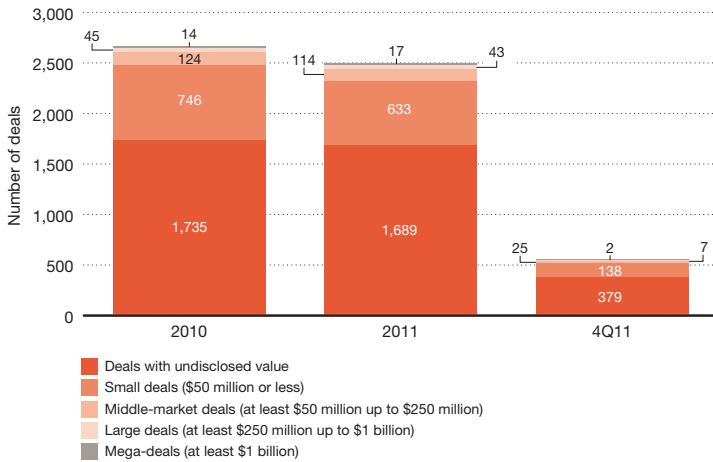
Deal activity by value of deals

Measured by value of announced deals worth \$50 million or more*



* Numbers may not add up because of rounding.

Deal activity by volume and range of deal value (including transactions with undisclosed values)
 Measured by number of announced deals



Small, bolt-on acquisitions continue to dominate the activity

Consistent with the historical trend and expectations, small and undisclosed value deals continued to account for the majority of the activity in the fourth quarter of 2011. A closer look at the mid-market transactions uncovers an interesting trend: There were 10 European acquisitions, all with European targets; nine Asian deals, all with Asian targets; five North American acquisitions, all with North American targets; and one South African deal, where both the target and acquirer were from South Africa.

This trend confirms companies' preference to expand within their geographic region due to greater level of familiarity with the specifics of their local business environment. Additionally, the majority of transactions within the mid-market segment were generated by the strategic efforts of companies to take advantage of synergies and diversify product mixes with new offerings. Divestitures also played a significant role in deal activity this quarter as companies dealt with decreasing demand and efforts to limit exposure to low growth markets and products.

When it comes to large deals, especially mega-deals, there was a significant decline during the fourth quarter. There were only two mega-deals, totaling \$5.91 billion, compared with seven mega-deals in the third quarter, with a total value of \$12.46 billion. The significant slowdown in deal activity from the third quarter to the fourth quarter is likely to continue into the next few quarters. Few large deals and mega-deals are expected as a result of the uncertainty of the recovery of the global economy, particularly in the engineering and construction sector. However, the higher cash positions and stronger balance sheets mean that large strategic investors have the wherewithal to engage in new mega-deals, which may provide some upside to this outlook.

Small and middle-market transactions should continue to generate the largest contribution to M&A activity. In the quarters to come, the uncertainties of the external environment are likely to continue to push smaller players into deals as they are forced to cope with low demand and financing in the current market environment

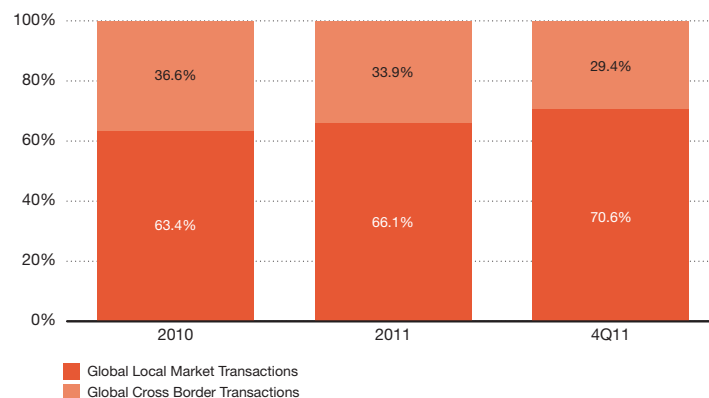
Consolidation in domestic markets dominates the transactions

Local transactions led activity in the fourth quarter as companies sought consolidation within their local markets. Faced with a substantial level of uncertainty from the external environment, companies appeared to be opting for growth within their familiar domestic markets. Such moves limit the legal and cultural risks typically associated with cross-border transactions, while taking advantage of overall scale, synergies, cross-selling opportunities, elimination of competition, and talent and technology attainment.

Additionally, the higher growth prospects within emerging markets are likely to keep Asian acquirers focused on targets within their borders. This could be particularly true for China, where government efforts to privatize companies, while keeping ownership out of the hand of foreigners, could spur local Chinese deal activity. Mature markets, such as the United States and Europe, could also seek domestic consolidation as a tool for growth and competitor elimination.

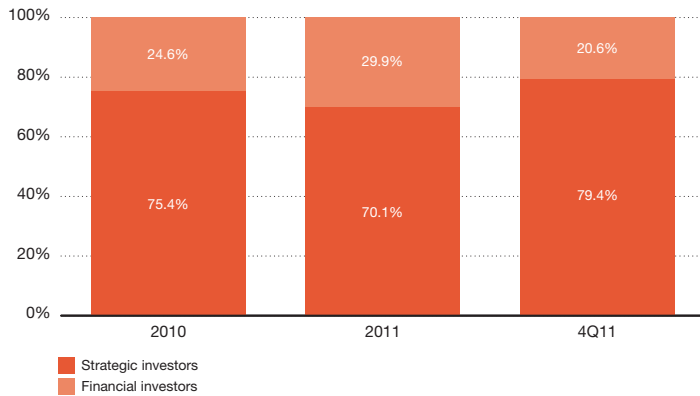
Local-market versus cross-border deals (all nations)

Measured by number of announced deals worth \$50 million or more



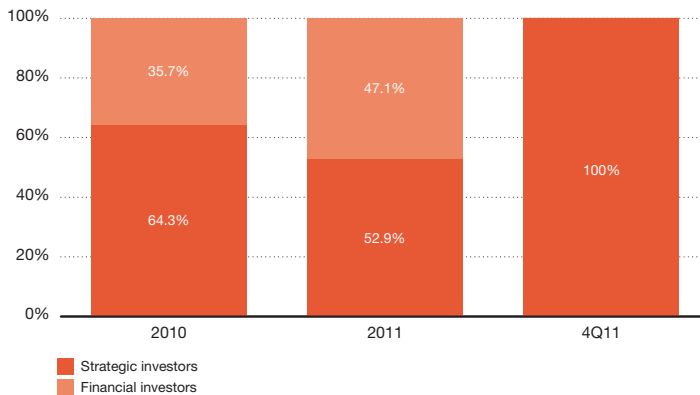
Deal activity by investor group

Measured by number of announced deals worth \$50 million or more



Mega-deal activity by investor group

Measured by number of mega-deals worth \$50 million or more



Financial investors retreat to the sidelines due to economic uncertainty and market volatility

Strategic investors led deal activity in the fourth quarter of 2011. After a strong presence in the transactions arena in the third quarter, financial investors pulled back as a result of market volatility and the European crisis. Strategic investors' inorganic growth efforts were driven by the pursuit of synergies, cost reductions, and expansion to their client base. The predominant areas for growth included targets that provided opportunities consistent with global trends such as infrastructure, clean and renewable energy and energy efficiency, and technology and human capital management.

Another explanation for the reduction in the level of financial investors' activity, at least in the United States, could be explained by the softness in private equity (PE) during the fourth quarter of 2011. According to Prequin 2011 Private Equity Secondaries Review, there were only 108 PE funds in the fourth quarter, compared with 137 funds in the third quarter of 2011 and 209 in the fourth quarter of 2010. There was also a 3% decrease in the funds raised in the fourth quarter over the previous quarter, and a 5% decrease on a year-over-year basis. These further reductions are in the wake of already-low levels of PE, and they show that 2011 was a difficult year for fundraising.

Mega-deal volume and value drop

During the fourth quarter of 2011, mega-deals (transactions of at least \$1 billion) declined significantly both in terms of the number and value of the deals compared with the third quarter. The first mega-deal involved the attempt of a hostile takeover of Vulcan by Martin Marietta, after friendly talks for merging yielded no results. The acquirer has filed two lawsuits in conjunction with the offer and is hoping to take over one of its largest competitors at a fairly low cost. Vulcan's board has rejected the offer, calling Marietta's efforts a "surprise attack."

The other mega-deal in the quarter occurred in Europe and engaged a French target and a Belgium acquirer. The deal was a divestiture, in which Lafarge SA announced it was seeking a buyer for its gypsum branch with operations in Europe and Latin America. For Etex, the interested buyer, the acquisition would allow the company to expand in new markets as builders in Latin America adopt gypsum-based wallboard for interior walls and ceilings. The company has turned to emerging markets in an effort to bolster profit against a backdrop of sluggish demand for tiles, corrugated panels, and other building products in European construction markets.

Details of the mega-deals during the fourth quarter include the following:

1. Martin Marietta Materials Inc. launched a hostile tender offer to acquire the entire share capital of Vulcan Materials Co., a manufacturer and wholesaler of construction materials, in a stock swap and reverse takeover transaction, valued at \$4.74 billion.
2. On October 28, 2011, Etex Group SA acquired the plasterboard division of Lafarge SA, a Paris-based manufacturer of construction products, in the formation of an 80:20 joint venture, for \$1.173 billion.

Mega-deals in 2011

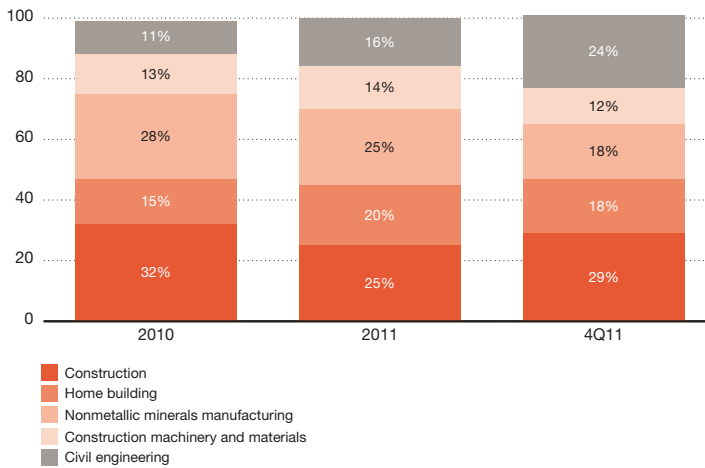
Month announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Mar	Fletcher Building Ltd	New Zealand	Fairfield Securities LP	New Zealand	Intended	5.13	Home building
Dec	Vulcan Materials Co	United States	Martin Marietta Materials Inc	United States	Pending	4.74	Construction machinery and materials
Mar	Hyundai Engineering & Construction Co Ltd	South Korea	Investor Group	South Korea	Completed	4.45	Civil engineering
Aug	SPIE SA	France	Investor Group	United States	Completed	3.03	Civil engineering
Feb	Anglo American PLC—Construction Materials Businesses	United Kingdom	Lafarge Cement UK PLC—Construction Materials Businesses	United Kingdom	Pending	2.65	Nonmetallic minerals manufacturing
Sep	Charter International PLC	Ireland-Rep	Colfax UK Holdings Ltd	United Kingdom	Pending	2.43	Civil engineering
Jun	Charter International PLC	Ireland-Rep	Melrose PLC	United Kingdom	Withdrawn	2.27	Civil engineering
Jul	Kencana Petroleum Bhd	Malaysia	Integral Key Sdn Bhd	Malaysia	Intended	1.99	Civil engineering
Jul	ConnectEast Group	Australia	Horizon Roads Pty Ltd	Australia	Completed	1.53	Construction
Jan	Siemens Ltd	India	Siemens AG	Germany	Completed	1.35	Construction
May	AG Cementos Balboa SA	Spain	CSN Steel SL	Spain	Withdrawn	1.35	Nonmetallic minerals manufacturing
Sep	WTorre Properties SA	Brazil	BR Properties SA	Brazil	Pending	1.34	Home building
Oct	Lafarge SA—Plasterboard Division	France	Etex Group SA	Belgium	Completed	1.17	Nonmetallic minerals manufacturing
Sep	Puerto Rico Public—Private Partnership Authority{PPPA}—PR 22	Puerto Rico	Investor Group	United States	Completed	1.14	Construction
May	Demag Cranes AG	Germany	Terex Industrial Holding AG	Germany	Completed	1.11	Construction machinery and materials
May	LeTourneau Technologies Inc	United States	Joy Global Inc	United States	Completed	1.10	Construction machinery and materials
Jul	Vacuumschmelze GmbH & Co KG	Germany	OM Group Inc	United States	Completed	1.01	Nonmetallic minerals manufacturing

Mega-deals in 2010

Month announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Feb	Smith International Inc	United States	Schlumberger Ltd	United States	Completed	11.04	Construction machinery and materials
Nov	Bucyrus International Inc	United States	Caterpillar Inc	United States	Completed	7.45	Construction machinery and materials
Sep	Hochtief AG	Germany	Actividades de Construccion y Servicios SA{ACS}	Spain	Intended	4.02	Construction
Jul	Abertis Infraestructuras SA	Spain	Trebol Holdings Sarl	Spain	Completed	3.68	Construction
Nov	Queensland Motorways Ltd	Australia	QIC Ltd	Australia	Completed	3.35	Construction
Jun	Subsea 7 Inc	Norway	Aceryg MS Ltd	United Kingdom	Completed	2.50	Civil Engineering
Mar	Kumho Industrial Co Ltd	South Korea	Creditors	South Korea	Completed	2.21	Construction
Jan	Arabtec Holdings PJSC	Utd Arab Em	Aabar Investments PJSC	Utd Arab Em	Withdrawn	1.75	Home building
Jan	Cimpor Cimentos de Portugal SGPS SA	Portugal	Camargo Correa Portugal SGPS SA	Portugal	Completed	1.33	Nonmetallic minerals manufacturing
Oct	Shanghai Tongsheng Yangxi Port Asset Management Co Ltd	China	Shanghai International Port (Group)Co Ltd	China	Completed	1.21	Construction
Dec	Valemus Ltd	Australia	Lend Lease Group	Australia	Completed	1.09	Construction
Mar	Corredor Norte Toll Road Project	Panama	Republica de Panama	Panama	Pending	1.07	Construction
Feb	KNM Group Bhd	Malaysia	BlueFire Capital Group Ltd	Malaysia	Withdrawn	1.05	Construction machinery and materials
Jun	Societe des Autoroutes Paris-Rhin-Rhone SA	France	Eiffarie SAS	France	Completed	1.05	Construction

Deals by E&C category

Measured by number of announced deals worth \$50 million or more



Construction category resumes its leading role in deals activity

PwC segments the E&C sector into five categories by comparing standard industrial classification (SIC) codes with our internal classification system. Based on this process, we group deals (measured by number of transactions) into five product and service segments:

- Construction
- Civil engineering (includes architecture firms)
- Home building
- Construction machinery and materials
- Nonmetallic minerals manufacturing

Based on this methodology, during the fourth quarter of 2011, targets classified in the construction segment led the activity with about 29% contribution, followed by civil engineering, which contributed 24%, after gaining significant momentum last quarter. The leader in activity from last quarter, non-metallic minerals, contributed to the single mega-deal in the fourth quarter and shared an equal contribution of 18% with home building. Construction machinery and materials generated the remaining 12% of the transactions.

Regional analysis

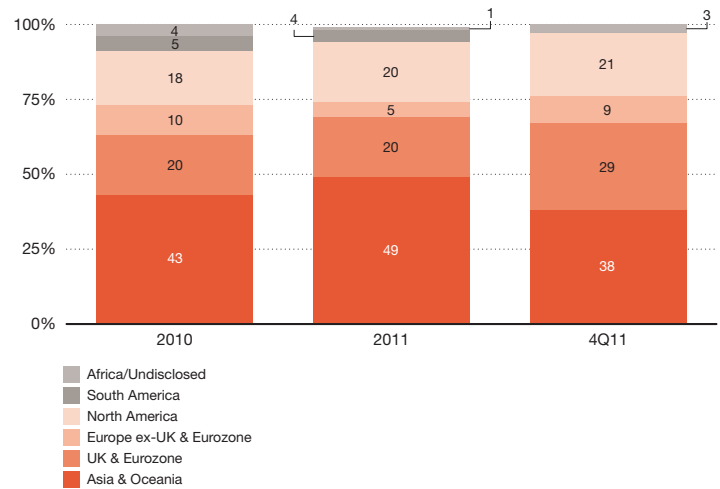
Asia and Oceania region sustains its leading role in M&A activity

Despite a slowdown in growth projections, Asia and Oceania continued to be the strongest contributor to M&A transactions in the E&C sector. According to the “IHS Global Construction Outlook,” January 2012, Japan, New Zealand, and China are expected to be among the countries with the largest construction growth in 2012. The drivers for growth will include reconstruction from earthquake damage and Chinese government spending for development in the country’s interior and western regions.

Another region that contributed a significant number of deals in the fourth quarter was the UK & Eurozone, which this quarter accounted for about 30% of the transactions. Despite severe recessionary concerns, this region continued to experience increases in deal activity due to consolidation in the mature market. Additionally, the 2012 London Olympics spurred the level of available projects and increased companies’ interest in that region. In November 2011, the EU proposed a budget increase of EUR 50 billion (approximately \$63.68 billion) for funding various infrastructure projects for the period 2014-2020. One of the goals of the project is to speed up public and private investment in roads, railroads, energy grids, pipelines, and high-speed broadband networks. Of the EUR 50 billion, EUR 31.7 billion is allocated for transport, with the intent to attract significant amounts of additional private investment. All of these factors are likely to foster interest in the region and increase future deal activity.

Regional distribution of deals by target region

Measured by number of announced deals worth \$50 million or more

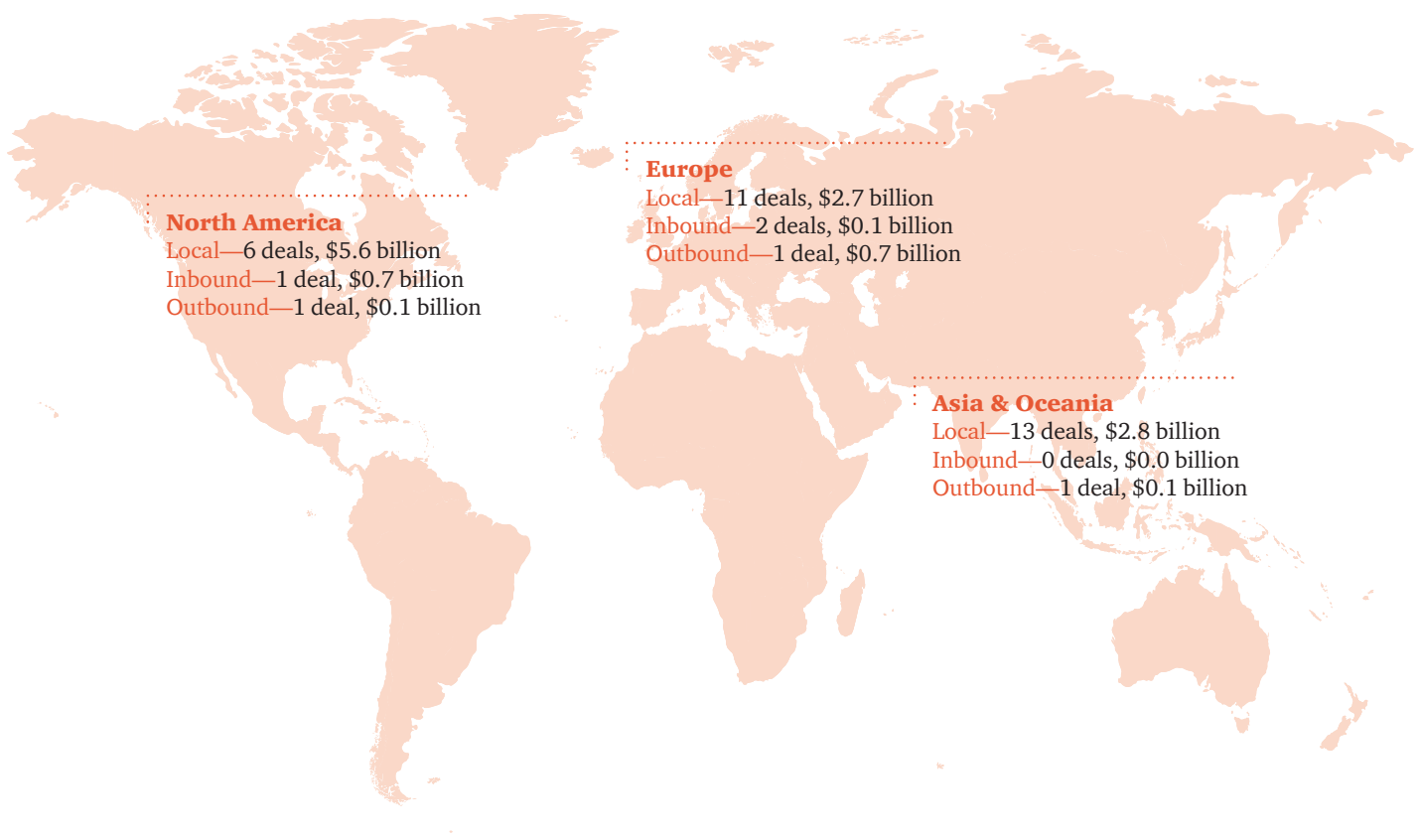


During the fourth quarter and consistent with expectations and the historical trend, the South America and Africa/Undisclosed regions did not realize a significant traction in reported deals activity. Mixed news from the South American region created a zero net effect, with Panama projected as the 2012 leader in construction growth—an increase of more than 13% over 2010. This significant construction growth is a result of the massive expansion of the Panama Canal. On the other hand, Venezuela nationalized its cement industry, which led to significant expatriation problems for investors and a major legal battle for foreign companies operating in Venezuela, such as Cemex.

The Africa region experienced a significant level of political and social unrest last quarter with protests and civil wars in Tunisia, Egypt, Algeria, and Libya. According to *International Construction's* December podcast, this turmoil has resulted in more than \$23 billion of projects being delayed or canceled. Such high levels of uncertainty are likely to curb companies' expansion efforts in that region for the near future. Longer term, "IHS Global Construction Outlook," January 2012, forecasts the construction sector in the region to grow with an average rate of 6.4% per annum over the next five years, making it attractive for investment. Egypt has been identified as one of the largest and most stable countries in the region in terms of returns expected and is likely to experience increased investors' interest in the next five years.

Global E&C M&A activity

Measured by number and value of deals worth \$50 million or more (4Q11)



Graph does not include Africa, which has 1 outbound deal for \$0.1 bil., 0 inbound deals, and 0 local deals.

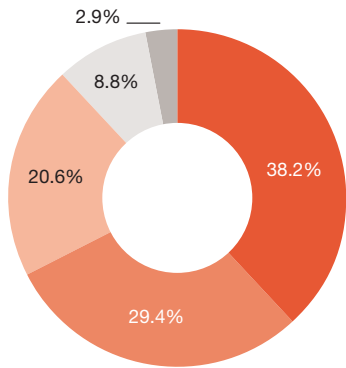
The global distribution of sector deal activity during the fourth quarter was diverse. The majority of the transactions were within the acquirers' native countries. Asia again contributed the largest number of deals, but the North America region led the activity in terms of the total deal value. This trend signifies the increasing role of emerging markets in the transactions market and reaffirms our projections that Asian deals would lead the E&C M&A market.

China's tremendous need for infrastructure and limited availability of public funding have resulted in the government's efforts to use public private partnerships (PPP) and private financing to supplement the infrastructure funding deficit. China's rapid urbanization is also likely to trigger growth in the construction of office buildings and other facilities. The World Bank's article, "China Energy Efficiency Financing III," October 27, 2011, points out that a partnership project between China, the World Bank, and the Global Environment Facility is aimed at restructuring China's energy efficiency, both in residential housing and commercial buildings. All of those initiatives are likely to stimulate interest in the region and fuel deal activity.

Another explanation for the growing activity in local Asian deals can be found in studying the foreign direct investment (FDI) data of China. According to *Foreign Investment Bulletin*, "Statistics of January–November 2011 on National Absorption of FDI," December 2011 the number of used foreign investments in China went up 13.15% year-over-year. However, a closer look at the breakdown of approved and used FDI shows that the bulk of those investments were from Asian countries. The number of actual input funded by 10 Asian countries/regions (Hong Kong, Macao, Taiwan, Japan, Philippines, Thailand, Malaysia, Singapore, Indonesia, ROK) increased by 17.98% year-over-year, while the actual input of US corporations dropped 23.05% year-over-year. Enterprises funded by European corporations remained mostly unchanged (up only 0.29% year over year). The FDI numbers are for all sectors, but the outlined trends are certainly relevant for the E&C industry overall.

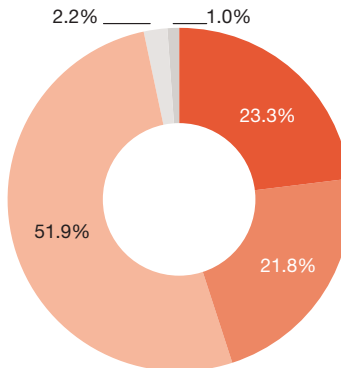
Regional distribution of deals by target region

Measured by number of announced deals worth \$50 million or more (4Q11)



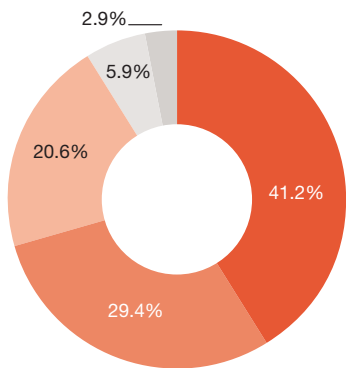
Regional distribution of deals by target region

Measured by value of announced deals worth \$50 million or more (4Q11)



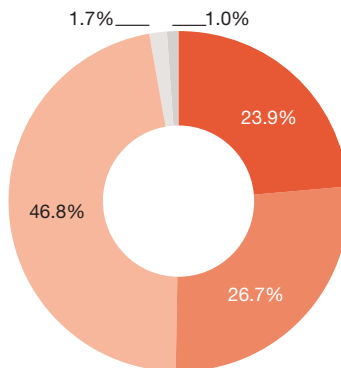
Regional distribution of deals by acquirer region

Measured by number of announced deals worth \$50 million or more (4Q11)



Regional distribution of deals by acquirer region

Measured by value of announced deals worth \$50 million or more (4Q11)



■ Asia & Oceania
 ■ UK & Eurozone
 ■ North America
 ■ South America
 ■ Europe ex-UK & Eurozone
 ■ Africa/Undisclosed

China leads BRIC transactions

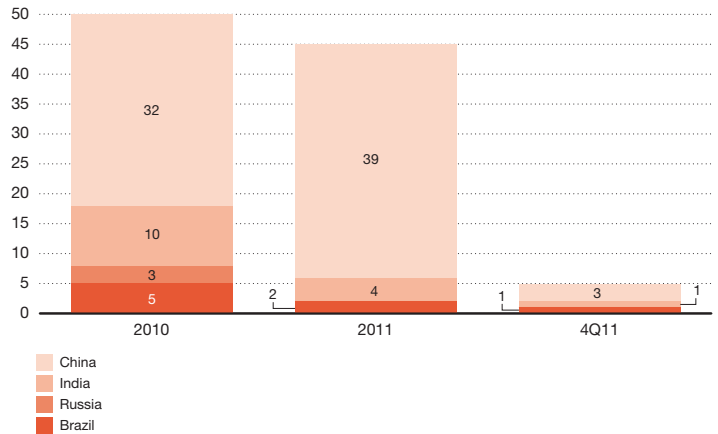
It was no surprise that China generated the bulk of the transactions within the BRIC segment both in terms of the number and value of deals. The Chinese government’s stimulus plan has resulted in significant growth in the country’s construction output and its demand for equipment.

Despite failing to generate a substantial amount of deal activity in the fourth quarter, India has a great deal of potential to generate future deal activity. According to the Indo-Italian Chamber of Commerce and Industry, “Overview of the construction industry in India,” the Indian construction industry is likely to grow from INR 7 billion in 2005 to INR 58 billion by 2015, with significant growth opportunities in the construction of residential housing, roads, railways, airports, and power facilities. Water supply and sanitation projects are other areas that are likely to experience growth and investment interest. The growth in the construction sector would also trigger growth in the engineering, construction equipment, and material subsectors.

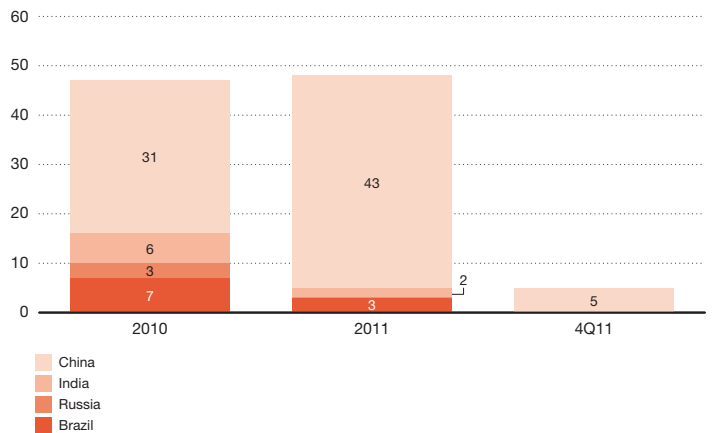
Brazil is also expected to experience strong growth and deal interest in the quarters to come, driven by the country hosting a number of major sports events, which in the past has spurred construction growth. Brazil is the host of the 2014 FIFA Soccer World Cup as well as the 2016 Olympics, resulting in an increase in infrastructure projects and making it, along with India, a significant future player in deal activity among the BRIC nations.

After a shaky economic performance in the last couple of quarters, many have started doubting Russia’s place among the BRIC countries, especially in the engineering and construction space. However, Russia’s 2010-2015 infrastructure development project has budgeted a total investment of approximately \$450 billion over the next five years. Additional growth and interest in the country could come from the preparation for the 2018 Sochi Olympic Games.

Distribution of BRIC deals by target nation
Measured by number of announced deals worth \$50 million or more



Distribution of BRIC deals by acquirer nation
Measured by number of announced deals worth \$50 million or more



PwC spotlight

In an uncertain global economy, liquidity issues and stakeholder pressures for improved performance have led to an increased focus on divestiture activities in the short term. The need to divest may be an inevitable reality. But a smaller pool of likely buyers and greater scrutiny from banks have resulted in increased levels of buyer due diligence, often extending the sales process and sometimes eroding sale prices.

Readying a company for more rigorous buyer due diligence can be critical to preserving the value of a divestiture for the seller. Also important: preparations for mitigating other areas of frequent value loss, including ineffective terms and pricing of TSAs and insufficient infrastructure planning for stranded costs.

How PwC can help

While market conditions have fluctuated dramatically in recent years, extracting top value remains the overriding goal of the divestiture process. The divestiture specialists with PwC's Transaction Services support clients by enabling them to accelerate the speed to market/close, and helping ready companies for the sale, in order to gain the full value of the business in the offering price. Our divestiture professionals, part of a TS team of about 1,000 deal professionals in 16 US cities, can address carve-out financials, standalone audit requirements, identification of potential buyer deal issues, transition service agreements, data room assistance, and structural alternatives designed to help maintain the value of the divestiture.

Divestiture management support: PwC has put together a winning approach to launching and managing divestitures. We bring a time-tested divestiture and separation methodology and an expansive set of processes, tools, templates, and guides to support the overall divestiture.

Functional divestiture assistance: PwC is equipped with core competencies in the fundamental infrastructure areas that form the building blocks for capturing (and preserving) value in a divestiture. Our experienced divestiture professionals leverage their subject matter and process experience and expertise to help clients position the business for sale and optimize overall results from transition to transformation.

PwC helps clients ready themselves for rigorous buyer due diligence. We can deliver support, methodology, tools, and templates from start to finish of the divestiture process, assisting with areas including:

- Divestiture strategy
- Candidate acquirer screening
- Sell-side commercial due diligence
- Sell-side financial due diligence
- Financial and tax structuring
- Financial statements and reporting
- Carve-out statements and regulatory filings for regulatory compliance
- People and HR matters, employee benefits
- Operational carve-out analysis
- Insurance risk

- Contract transition
- Divestiture management and separation

PwC deploys a team tailored to each engagement to advise clients. In addition to supporting a speedy, more efficient go-to-market process and close, rigorous divestiture management and due diligence helps clients:

- Execute a smooth transaction, close, and post-close transition
- Minimize risks, avoid costly surprises, and enhance overall control over the process
- Address operation separation issues early, including TSAs and potential stranded costs
- Avoid value deterioration throughout the process and post-close
- Minimize disruptions to both the target and remaining businesses
- Mitigate regulatory, financial reporting, and operational risks
- Optimize transaction value for the seller

Our tailored approach gives clients the appropriate balance of transaction, functional, and industry expertise across the value chain. We start with a client's transaction viewpoint and investment thesis, and then guide a company through assessments and evaluations of divestiture considerations; exclusive or auction situation; planned capital structure and financing sources; timing and deliverables; critical deal and valuation issues; and integration challenges and solutions.

Specialty case study

Issue	A global construction company sought opportunities to divest several business operations that were not central to the organization's core mission. The company urgently needed cash to pay down a lender loan and was required to efficiently conduct a series of divestiture transactions.
Action	PwC performed sell-side due diligence on the divested entities, analyzing earnings trends, working capital issues and potential separation concerns. We helped management gain an accurate view of normalized earnings and working capital, and helped prepare the company for buyer diligence by identifying areas of value leakage. PwC also helped the company establish a central divestiture management office and achieve its operational separation goals, including transition service agreements and tactical IT and people separation.
Impact	<p>PwC's involvement helped the company's management and its bankers prepare for the deal negotiations. With the first few weeks of PwC's field deployment, the company:</p> <ul style="list-style-type: none">• Established its divestiture management office• Developed operational and functional Day One separation plans• Conducted separation activities with transition teams <p>The company successfully closed the transactions by the debt call date, raising enough cash to restructure its debt.</p>

PwC experience

Deep engineering and construction industry and transaction experience

PwC provides advisory, assurance, or tax services for nearly 90% of the engineering and construction companies listed in the Fortune 500. Our Engineering & Construction industry practice is composed of a global network of more than 4,700 industry professionals who service approximately 20,000 E&C companies around the world. We specialize in servicing private and public contractors, home builders, building products companies, and professional and support services companies, as well as governments. Central to the successful delivery of our services is an in-depth understanding of today's industry issues and our unwavering commitment to delivering economic value through specialized resources and international leading practices. Our highly skilled team encourages dialogue regarding complex business issues through active participation in industry conferences and associations, such as the Construction Financial Management Association.

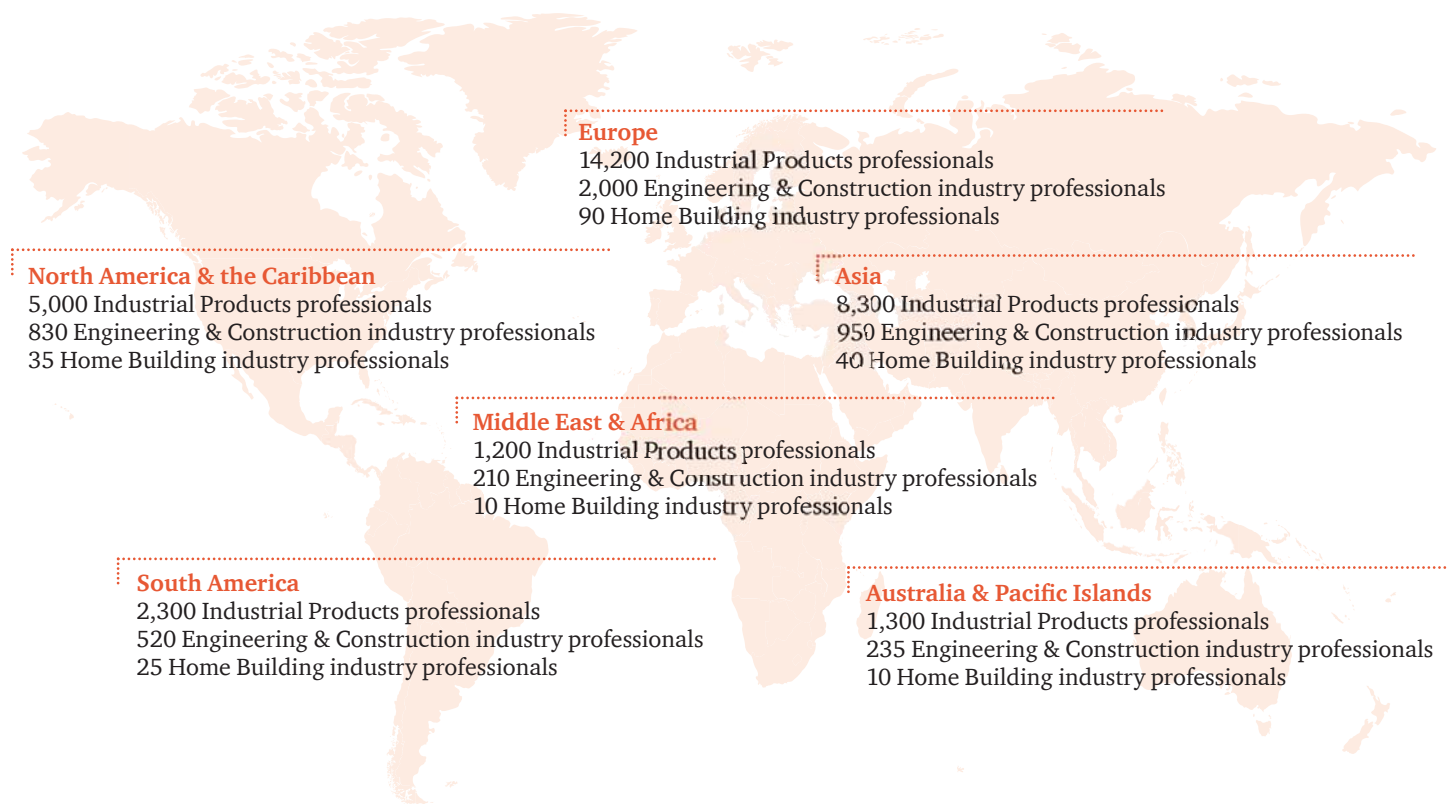
Quality M&A deal professionals

PwC's Transaction Services practice consists of more than 6,500 dedicated deal professionals worldwide. The depth of

their industry and functional experience enables them to advise clients regarding factors across the deal continuum that could affect a transaction. From initial due diligence and evaluation to preparation for Day One and post-close merger integration, our teams are committed to capturing value throughout the deal process and achieving our clients' objectives. These functional areas include, but are not limited to, sales and marketing, financial accounting, tax, human resources, information technology, risk management, and supply chain. Teamed with our E&C industry practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as industry point of view.

Local coverage, global connection

In addition to having dedicated professionals serving the engineering and construction industry, our team is part of an expansive Industrial Products group that consists of more than 31,500 professionals, including approximately 18,600 providing assurance services, 7,700 providing tax services, and 5,200 providing advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources, and know-how in the most effective and timely way.



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Through our global network, we can draw upon the technical and industry experience of E&C specialists in every country in which your company operates.

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Methodology

Engineering growth is an analysis of deals in the global engineering and construction sector. Deal information was gathered from Thomson Reuters and includes deals for which targets have primary SIC codes that fall into one of the following SIC industry groups: single-family housing construction; residential construction; operative builders; industrial buildings and warehouses; nonresidential building construction; highway and street construction; bridge, tunnel, and elevated highway construction; water, sewer, pipeline, and utility line construction; heavy construction; plumbing, heating, and air conditioning; electrical work; carpentry work; roofing, siding, and sheet metal work; concrete work; water well drilling; structural steel erection; excavation work; installation or erection of building equipment; special trade contractors; asphalt paving mixtures and blocks; asphalt felts and coatings; flat glass; glass containers; pressed and blown glass and glassware; glass products made of purchased glass; cement, hydraulic; brick and structural clay tile; ceramic wall and floor tile; clay refractories; vitreous plumbing fixtures and bathroom accessories; fine earthenware (whiteware) kitchen articles; pottery products; concrete block and brick; concrete products, except block and brick; ready-mixed concrete; gypsum products; cut stone and stone products; abrasive products; minerals and earths, ground or otherwise treated; mineral wool; nonclay refractories; nonmetallic mineral products; construction machinery and equipment; mining machinery and equipment, except oil and gas; oil and gas field machinery and equipment; elevators and moving stairways; conveyors and conveying equipment; hoists, cranes, and monorail systems; industrial trucks, tractors, trailers, and stackers; lumber, plywood, millwork, and wood panels; brick, stone, and related construction materials;

roofing, siding, and insulation materials; construction materials; lumber and other building materials dealers; engineering services; architectural services; surveying services; and air and water resource and solid waste management. Balance sheet data was sourced from public company reports.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority-stake purchases, and acquisitions of remaining interest announced between January 1, 2009, and December 31, 2011, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e. initial conditions set forth by the buyer have been met but deal has not been completed), or withdrawn.

Regional categories used in this report approximate United Nations (UN) regional groups, as determined by the UN Statistics Division, with the exception of the North America region (includes North America, Latin America, and the Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into UK and Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country, and China, when referenced separately, includes Hong Kong. The term deal, when referenced herein, refers to deals with a disclosed value of at least \$50 million unless otherwise noted.

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