Engineering growth
First-quarter 2012 global engineering and construction industry mergers and acquisitions analysis

pwc

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To our engineering and construction readers,

Welcome to the latest edition of *Engineering growth*, PwC's analysis of mergers and acquisitions in the global engineering and construction industry. In this report, you'll find an overview of M&A in the industry during the first quarter of 2012, plus expectations for deal activity in the near future.

PwC analysts are looking to several trends expected to affect the values and locations of E&C deals:

- Deal activity remains slow. The first quarter saw declines in both the number and value of deals, as well as fewer large and mega-deals. The E&C recovery is still fragile as uncertainty persists, particularly regarding infrastructure and discretionary spending, among other drivers of growth. Investors mostly remained on the sidelines, waiting for more clarity on economic trends.

- The construction and construction machinery categories accounted for the largest number of deals.

- The growing infrastructure and urbanization needs of emerging markets such as India, South Korea, and China drove construction M&A. Investors pursued local transactions with targets engaged in highway and street construction.

- Elsewhere, growth in the mining and energy industries drove construction machinery deal activity. Countries including Australia that are rich in resources and have developed economies also offer great growth prospects for E&C companies.

- Construction materials generated the largest value of transactions, driven by the quarter's biggest mega-deal — between Austrian Camargo Correa SA and Cimpor Cimentos de Portugal SGPS SA.

- Strategic investors generated more than half of the quarter's transactions, with an increase in stock swaps as a payment method. Two of the three mega-deals nevertheless involved financial investors, suggesting potential for their return to the E&C deal-making space.

- Asia dominated overall activity as Chinese and South Korean companies grew stronger and more active in deals. Governments there are spending significantly in the areas of infrastructure, urbanization, water treatment, and energy/power. The Asia and Oceania region should remain active in M&A as construction companies strive to satisfy the growing demand of the huge local market.

We're pleased to present the first-quarter 2012 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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Perspectives:
Overview of deal activity

The slowdown in deal activity continues as uncertainty persists, and the industry's recovery remains fragile

One of the most influential factors that negatively affected the engineering and construction (E&C) deal activity in the first quarter of 2012 was the EU sovereign crisis. As Greece and other peripheral countries struggled to cover their debt obligations, the European economy continued to shrink. Lower European demand and economic restructuring resulted in a softening in the Chinese economy and a greater risk of a hard landing.

In the United States, political gridlock and uncertainty over many of the drivers of E&C growth, such as infrastructure and discretionary spending, put additional pressure on the industry's fragile recovery.

All of those factors contributed to a decline in the total number and value of deals in the first quarter of 2012. Investors remained mostly on the sidelines while awaiting more clarity. The resulting slowdown shows in not only the total number and value of deals, but also the fewer large and mega-deals.

Construction and machinery categories lead the number of deals, while construction materials generate the greatest value

The construction and construction machinery categories shared first place in terms of the number of deals generated in the first quarter.

Construction M&A was driven by the growing infrastructure and urbanization needs of emerging markets such as India, South Korea, and China. Investors pursued local transactions with targets involved in the highway and street construction business.

The construction machinery deal activity was spurred by growth in the mining and energy industries in countries rich in resources such as Australia. Even though these areas have developed economies, they offer great growth prospects for E&C firms.

The largest value of transactions was generated by deals in construction materials. This area saw the largest mega-deal in the quarter, between Austrian Camargo Correa SA and Cimpor Cimentos de Portugal SGPS SA. Cement manufacturers were particularly active during the quarter, as they strived to gain market share in attractive countries such as China, Indonesia, and New Zealand.

Strategic investors contribute the most to M&A, despite signs of a slow return by financial investors

Consistent with the historical trend, strategic investors generated slightly more than half of the transactions. And they used more stock swaps as a payment method.

However, two of the three mega-deals included financial investors, specifically from Asia. These deals indicate that more financial investors might be considering returning to the E&C deal-making space.

Asia dominates the deal making as Chinese and South Korean companies grow stronger and more active

Significant government spending in the areas of infrastructure, urbanization, water treatment, and energy/power created a wealth of E&C opportunities and spurred M&A growth in the emerging markets of the Asian world. Maturing local corporations take advantage of consolidation to become better prepared to handle the increasing complexity and size of the E&C projects.

The Asia and Oceania region is likely to remain very active in the M&A arena as construction companies strive to satisfy the growing demand of the huge local market.

Commentary

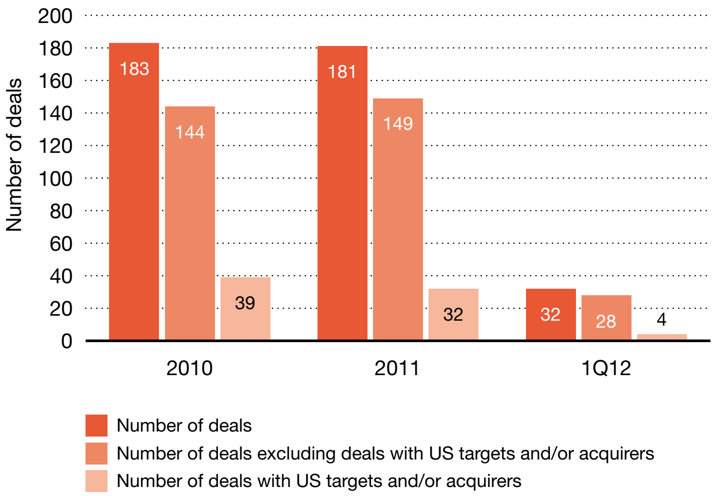
Deal activity by number and value of deals

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

	2009			2010				2011				2012
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	3Q	1Q
Number of deals	33	37	54	35	45	38	65	46	47	52	36	32
Total deal value ($ bil.)	10.7	8.7	20.1	25.4	11.7	14.3	26.8	22.8	14.7	22.7	13.1	11.3
Average deal value ($ bil.)	0.3	0.2	0.4	0.7	0.3	0.4	0.4	0.5	0.3	0.4	0.4	0.4

Deal activity by number of deals

Measured by number of deals worth $50 million or more



Deal totals

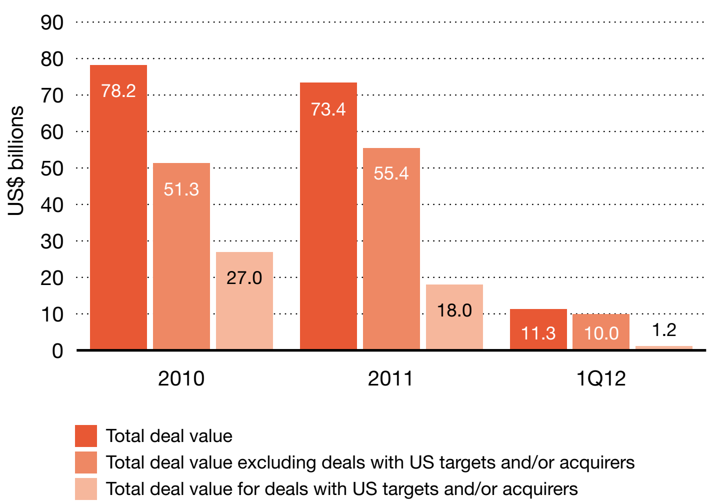
Engineering and construction (E&C) deal numbers continued to deteriorate in the first quarter of 2012 and reached the lowest number of transactions in the past 12 quarters. Deal values also suffered, declining more than 14% sequentially.

Downward revisions to the growth of the global economy reduced the optimism established in 2011 and kept some strategic and financial investors on the sidelines. This trend was consistent with our expectations, and it's likely to persist. Uncertainty in the global economy and the speed of recovery in the E&C industry are overshadowing companies' hunger for growth.

The Greek sovereign debt issues, as well as the rising problems in Spain, Portugal, and Italy, highlight the significant problems of the Southern European region. Not only do those nations face excess debt problems, but their populations also have expected standards of living, wages, and income that might not be sustainable by their GDPs and productivity numbers. This creates a painful problem that might require several years to correct. The likely result is a substantial reduction in demand, as well as a legitimate concern for a mild recession in the European Union.

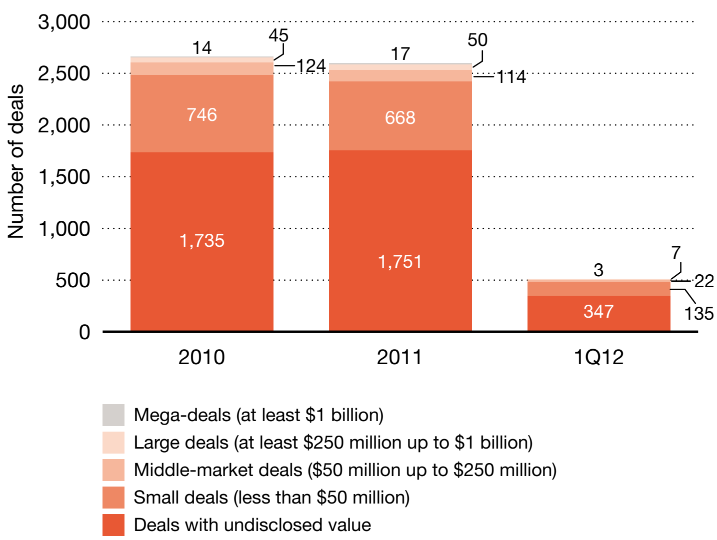
China's dependence on European demand contributed to lower growth in GDP and consequently reduced construction growth in the first quarter of 2012. This trend, in addition to the concerns of a housing bubble and weakening internal demand, furthered the risks of a hard landing. Additionally, China's desire to shift from an exports-oriented economy to growth driven by domestic demand is likely to be a slow process, putting more pressure on its overall growth projections.

Deal activity by total deal value
Measured by value of deals worth $50 million or more*



*Note: Numbers may not add up to 100% because of rounding.

Deal activity by number and range of deal value
Measured by number of deals



In the United States, it appears there has been some decoupling from the EU issues, as the economy sustained positive growth in the beginning of the year. However, the US E&C industry continues to face the challenges of decreases in public spending plus political gridlock. This environment has created greater ambiguity on issues such as infrastructure and discretionary public spending, as well as corporate tax policy. All of these factors overshadowed the interest in the E&C industry in the first quarter of 2012. Despite their healthy cash reserves, strong balance sheets, and growth hunger, investors restrained from engaging in a substantial level of M&A activity.

It was no surprise that non-US affiliated deals contributed the most to the M&A activity in the first quarter. In addition to the national uncertainty and political gridlock, the lower number and value of US transactions could be partly attributed to the stall in E&C corporate earnings growth in the United States during this period. The expiration of corporate tax reform, cuts in discretionary spending, and the high likelihood of an increase in the federal spending ceiling again present threats to domestic US deal making.

Additionally, although revised downward, the growth expectations in emerging markets remain greater than those for the developed world and the United States in particular. The result is a shift in M&A activity away from developed and into emerging markets, with some new players gaining momentum in the transactions arena.

The overall slowdown in deal activity trickled down to fewer mega- and large deals in the first quarter of 2012. Mid-market transactions also decreased, resulting in a lower percentage of $50 million and above deals in the quarter. Consistent with the historical trend, small and undisclosed value deals generated the majority of the transactions. Such transactions have been signature of the E&C deal activity since the recession as companies pursue smaller, bolt-on acquisitions driven by more conservative expansion efforts and financial deleveraging.

The recovery of the construction sector has been prolonged and rather fragile. The current risks have had a deteriorating effect on the interest in the sector. E&C companies face the challenges of intense competition, materials inflation, weakened private demand for their services, and fewer public projects as a result of budgetary restraints. While these factors will weigh on the value and number of transactions in the short run, they are also likely to promote consolidation in the industry as smaller players strive for survival and larger companies seek growth.

In such an environment, organic growth is hard to achieve and takes extended periods, while M&A, as attractive as it is, is rather costly and often unsuccessful. This is driving the emergence of a new trend of indirect consolidation, where strategic alliances, partnerships, and joint ventures are likely to replace or add onto the plain vanilla transactions field.

Deal categories and valuation

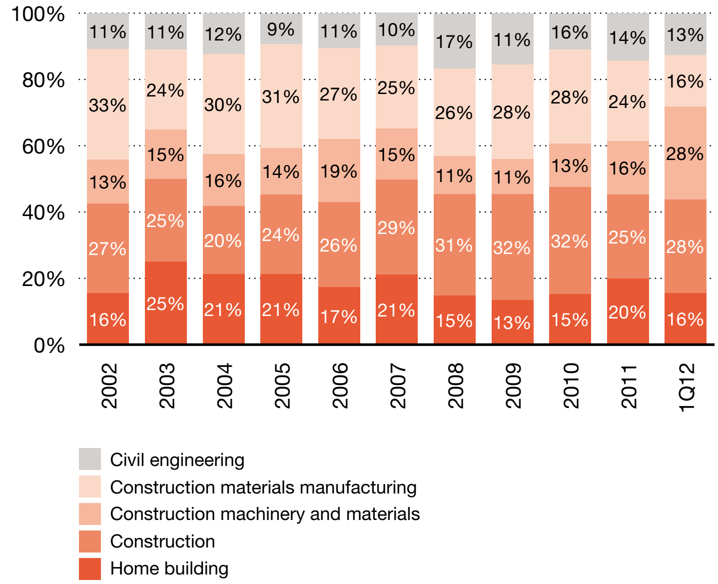
PwC segments the E&C industry into five categories by comparing standard industrial classification (SIC) codes with our internal classification system. Based on this process, we group deals (measured by number of transactions $50 million and above) into five product and service segments:

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

Based on this methodology, during the first quarter of 2012, transactions in the construction and construction machinery and materials categories led the number of deals. The construction subsector deal activity was driven by the growing infrastructure and urbanization needs of emerging markets such as India, South Korea, and China, which attracted investors to pursue transactions with targets involved in the highway and street construction business. The majority of such transactions were local, which suggests the growing maturity, consolidation, and financial strengthening of companies in these emerging markets. This trend also indicates the growing role of emerging markets not only in deal activity, but also in the global E&C industry as a whole.

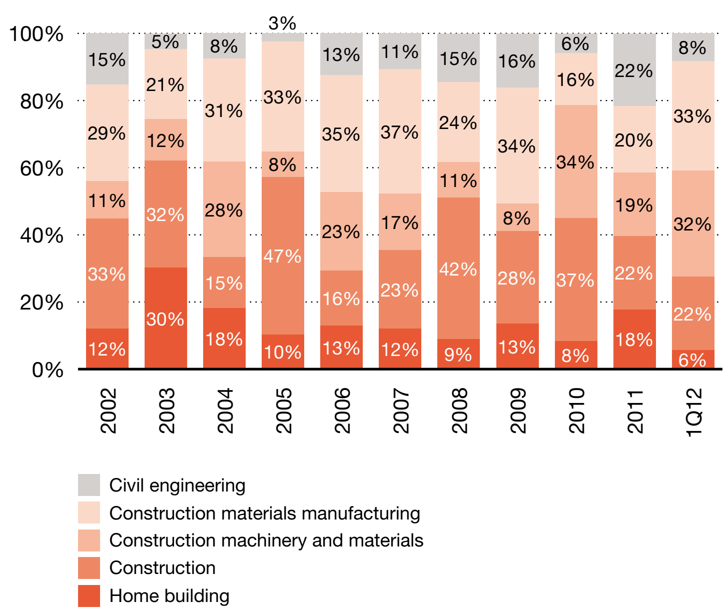
Construction machinery deal activity was driven by the growth and increasing interest in mining and energy. The mining sector in developed yet fairly rapidly growing countries, such as Australia, has created a growth opportunity for construction equipment companies. Acquirers from slow-growth Western countries such as the United Kingdom and Denmark seek growth opportunities in this area by pursuing Australian construction equipment targets. Because of the level of development and similarity of Australia's economy and business environment, such targets hide smaller foreign investment risks, while offering attractive growth prospects.

Deals by E&C target category
Measured by number of deals worth $50 million or more*



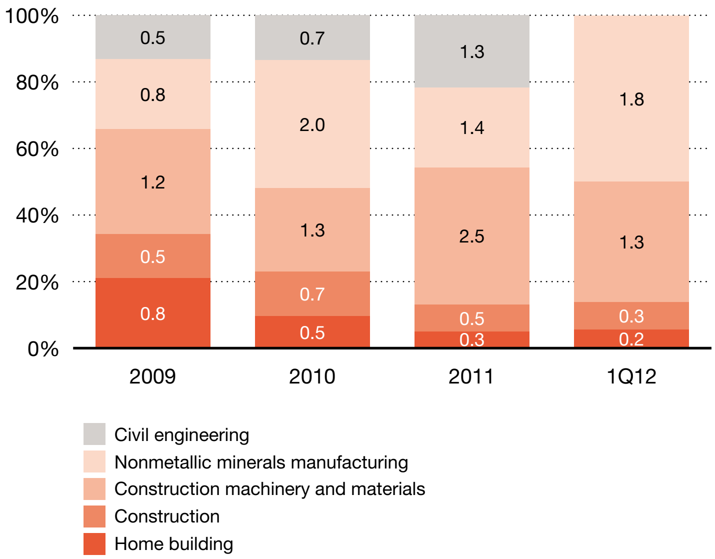
*Note: Numbers may not add up to 100% because of rounding.

Deals by E&C target category
Measured by the value of deals worth $50 million or more*

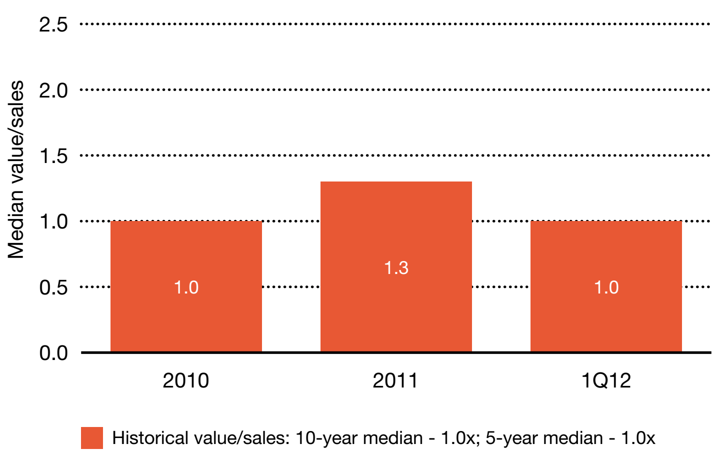


*Note: Numbers may not add up to 100% because of rounding.

Deal valuation by median value/sales
Measured by value/sales for deals worth $50 million or more



Deal valuation by median value/sales
Measured by value/sales worth $50 million or more



Interestingly, the largest value of transactions and greatest value to sales multiples were generated by deals in the construction materials area. This was partly driven by the largest transaction of the quarter, the mega-deal between Austrian Camargo Correa SA and Cimpor Cimentos de Portugal SGPS SA, for the total of $3.3 billion. This transaction, just like the majority of deals within this category, involved cement manufacturers as the targets. Cement is one of the most significant materials used in the construction industry because of its many desirable specifications for building residential, nonresidential, and commercial buildings. Cement is also an integral material for most infrastructure projects. Because the cement industry is capital and energy intensive, the extraction of raw materials is typically onsite, which reduces the transportation costs and environmental impact of production. The countries involved in these transactions were also nations with greater expectations for E&C growth, and consequently nonmetallic materials demand, such as China, Indonesia, and New Zealand.

Home building and civil engineering generated 16% and 13% of the deals volume and 8% and 6% of the deal value, respectively. The home building space was dominated by local South Korean and Chinese deals that involved targets in the multifamily housing business. This trend is similar to the trend for urbanization and significant construction growth in Southeast Asia.

Besides consolidation in well-developed markets such as Germany, the civil engineering deals arena witnessed some traction from new players such as Malaysia. This trend of greater deal activity from newcomers and emerging markets is likely to continue as the nations continue to expand and their urbanization needs drive growth in the E&C industry.

Largest E&C deals

Three mega-deals (transactions of at least $1 billion) were announced in the first quarter of 2012. The mega-deals declined in value and number from the previous quarter. Greater uncertainty in the global economy drove totals lower sequentially. This year, totals are unlikely to meet the 2011 levels. Details of the first-quarter 2012 mega-deals are provided below:

1. InterCement Austria Holding GmbH, a unit of Camargo Correa SA, launched a tender offer to acquire a Portuguese manufacturer and wholesaler of hydraulic cement, Cimpor Cimentos de Portugal SGPS SA. The transaction was valued at approximately $3.3 billion.

2. Hebei Veyong Bio-Chemical Co. Ltd. signed a Letter of Intent to acquire New Energy Mining Co. Ltd., a manufacturer and wholesaler of mining machinery and equipment. The offer consisted of $79.4 million in cash and 650 million new ordinary shares, valued at $1.1 billion. The total estimated value of the transaction was $1.2 billion.

3. Portuguese investment firm Jose de Mello Investimentos SGPS SA planned to launch a tender offer to acquire Brisa-Auto-estradas de Portugal SA, a provider of highway and street construction and maintenance services. The estimated value of the transaction was $1.1 billion.

The largest mega-deal in the first quarter uncovered some very interesting dynamics. Despite pursuing the deal through its Austrian subsidiary, the acquirer in the largest transaction of the quarter was the Brazilian cement maker Camargo Correa. Camargo has been a major stockholder of the target, Portuguese-owned Cimpor, since 2010, and therefore possessed a great understanding of the strategic, financial, and operational state of Cimpor. Despite the slow growth and recessionary concerns in the European Union, Cimpor managed to generate record revenues of 2.28 billion euros in 2011. The attractiveness of the target became even greater as the shares of Portuguese companies crumbled while the risks in the local Portuguese banking system accelerated.

The mining industry has presented a wealth of opportunity for E&C companies. Scarcity of natural resources and the explosion of the Chinese economy have resulted in China's hunger for access to such resources. It might appear odd at first sight that an agricultural chemicals and pesticides company such as Hebei Veyong Bio-Chemical would acquire a mining and mining equipment and machinery target such as New Energy Mining. But a deeper dive into the details of the transaction uncover that the target not only manufactures mining equipment, but also has coal exploration rights in the Bandongliang Coal Mining Zone, which is one of the largest coal mines in Mongolia. The acquisition provides the company with the opportunity to enter a very attractive market and expand its growth prospects in high-demand areas.

The smallest mega-deal in the quarter involved a Portuguese financial investor on the acquirer side, Jose de Mello Investimentos SGPS SA, and a highway and street construction and maintenance services provider from Portugal. Interestingly, as the country slipped into deeper financial problems, the Portuguese targets in overall deal activity increased.

Mega-deals in the quarters to come are likely to be driven by and involve targets and acquirers in areas around several macro-trends:

- Urbanization in emerging markets such as South Korea, China, and Brazil.
- Increasing global energy, oil, and gas needs, especially with the increasing footprint in shale gas, as well as E&C services for electric transmission.
- Water needs and engineering and construction of water treatment facilities.

These types of projects are generally large, require multiyear investment, and typically involve a level of government participation. Therefore, the attractiveness of such projects, which would ultimately drive mega-deals, depends on the stability of the global political and financial environment.

Mega-deals in 1Q12 (deals with a disclosed value of at least $1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil.	Category
Mar	Cimpor Cimentos de Portugal SGPS SA	Portugal	Camargo Correa SA	Austria	Intended	3.26	Nonmetallic minerals manufacturing
Feb	New Energy Mining Co Ltd	China	Hebei Veyong Bio-chemical Co	China	Pending	1.19	Construction machinery and materials
Mar	Brisa-Auto-estradas de Portugal SA	Portugal	Jose de Mello SGPS SA	Portugal	Intended	1.07	Construction

Mega-deals in 2011 (deals with a disclosed value of at least $1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer 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	Construction
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	Completed	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

Investor groups and acquisition techniques

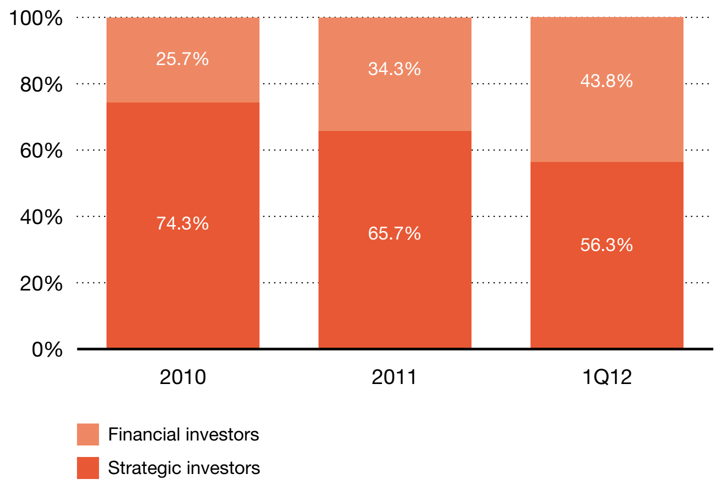
During the first quarter of 2012, strategic investors generated the majority of the transactions. However, it appears that financial investors have been slowly returning to the E&C deals market. Two of the three mega-deals were made by financial investors, and the investors came mostly from Asia, with a significant presence by South Korea.

A potential explanation for the greater interest among financial investors could be found in the increase in both the rising number of private equity (PE) firms and the greater amount of funds they managed to raise in the first quarter of 2012. According to Dow Jones, US PE funds raised $38.1 billion, a 4% increase from the first quarter of 2011. In Europe, PE firms raised $22.3 billion, an 82% increase in capital and 10% increase in fund closing. This trend started in the fourth quarter of 2011 and, if sustained, could result in an increase in the presence of financial investors in the E&C deal making.

The equity markets' rally of early 2012 could explain another trend observed in the E&C deal activity: the increasing contribution of stock swaps. On the other hand, after generating almost half of the deal activity in 2011, divestitures have started to slightly decrease. As the European Union began experiencing significant difficulties in 2011, E&C companies adjusted their market and product exposure and sought to limit or completely eliminate their presence in this market. This triggered a series of divestitures, which became an integral part of the M&A activity for last year. The slight decrease in this category could indicate that the geographic exposure adjustment has already taken place.

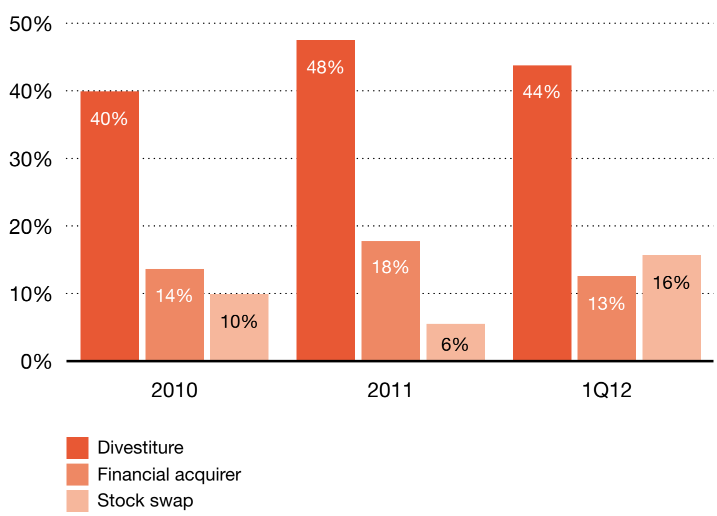
Deals by investor group

Measured by number of deals worth $50 million or more



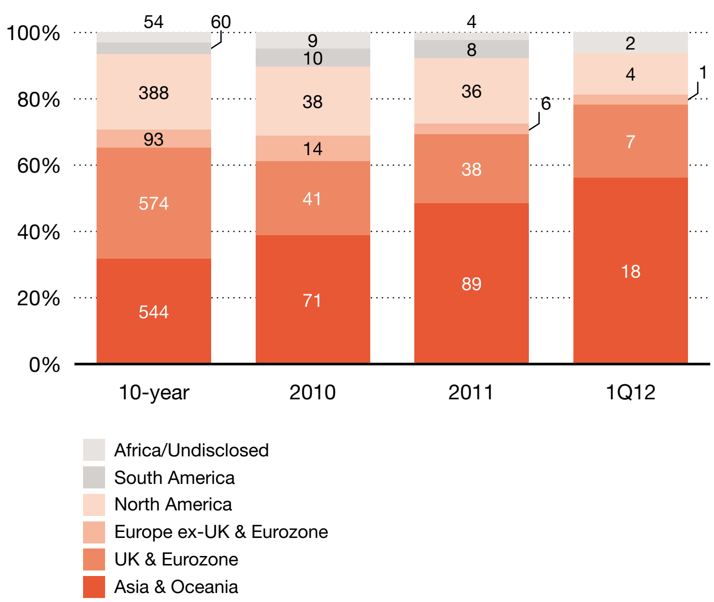
Acquisition techniques

Measured by number of deals worth $50 million or more

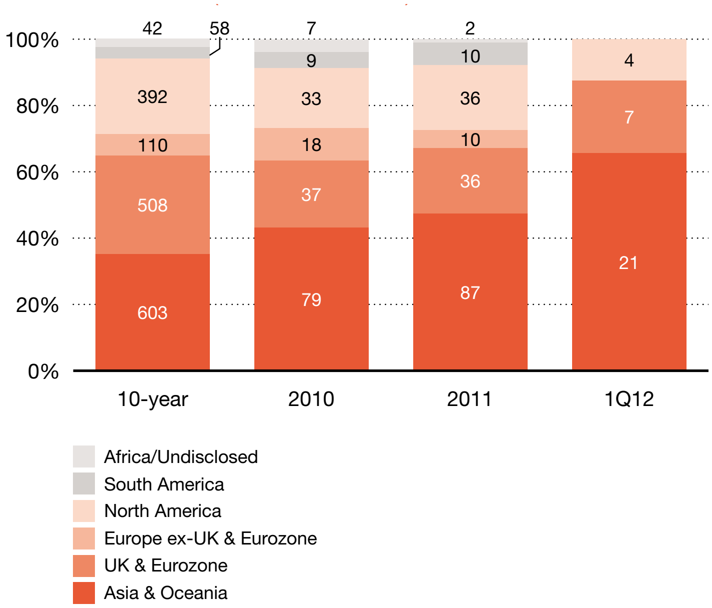


Regional analysis

Regional distribution of all deals by acquirer region
Measured by number of announced deals worth $50 million or more



Regional distribution of all deals by target region
Measured by number of announced deals worth $50 million or more



In the first quarter of 2012, the majority of deals were generated by targets and acquirers in the Asia and Oceania region. This trend held both in terms of the total number and the total value of the transactions. It also confirms our expectations that the higher E&C growth of emerging markets is likely to drive inorganic growth in that region. The bulk of the deals were also local, which could be explained by the greater growth of the E&C sector in the emerging world and the financial strengthening of companies within those countries. Additionally, countries such as China have tough foreign M&A approval processes that further promote domestic consolidation.

Aside from China, which has been one of the most active countries in M&A, new players from the Asia and Oceania region are emerging. South Korea, Malaysia, and Australia generated significant traction in the M&A market at the beginning of the year. The growing mining sector of Australia and its developed economy present an attractive option for E&C acquirers.

South Korea, with its fast-growing urbanization, infrastructure, water treatment, and energy needs, presents another greatly appealing country for deal activity. South Korean E&C companies have been winning projects across the globe, often competing against well-established industry leaders from the United States and Europe. Their ability to prefabricate many of the project components, in addition to their overall lower cost structure and competitive work quality, has granted South Korean companies a growing share of the global E&C project base. The combination of these factors has resulted in a stronger E&C industry, which is likely to continue to grow, often through consolidation.

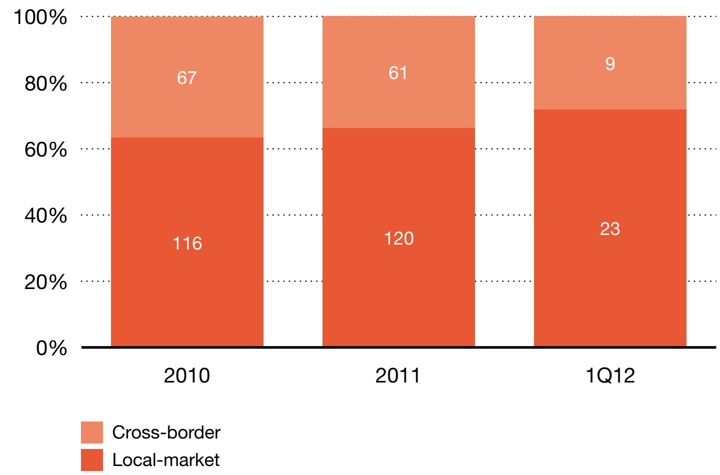
The hunger for M&A in South Korea is also driven by the nature of the projects for which E&C companies worldwide are bidding. These projects have a growing level of complexity, take multiple years for completion, and require expertise across the board—in engineering, construction, and project management. Patented technology is a frequent driver for M&A, but so is the skilled human capital, which often differentiates companies in the effectiveness and efficiency of the project execution. As such, these projects require their bidders to be large and wealthy E&C companies—in terms of financial, technological, and human capital—which is likely to drive more consolidation in the industry.

Malaysia, with its series of city building projects and one of the most established Islamic financial markets, presents another opportunity for growth. In addition, the country also has a well-developed oil and gas industry. And the local government, under the 10th Malaysia Plan and the Economic Transformation Program, has devoted significant stimulus to fund multiple infrastructure projects, including the My Rapid Transit project and the light rail transit (LRT) extension works. E&C firms in Malaysia are facing an environment that is very similar to the one in South Korea, with a wealth of opportunities and a need to consolidate to compete for the large, complex projects.

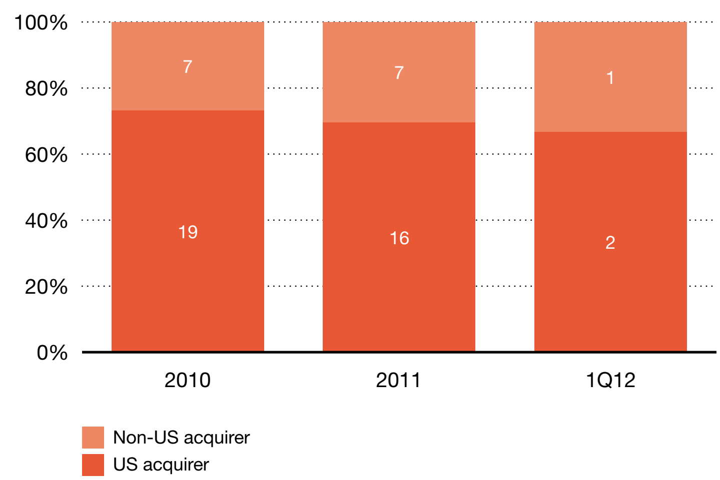
All of these factors are likely to result in further acceleration in the deals activity in South Korea and other countries in the Asia and Oceania region.

The developed world, Europe and North America, contributed a significantly smaller number of deals in the first quarter of 2012. This decline could be in response to the slower expected growth, and even mild recessionary concerns in Europe. The trend of local deals dominating the M&A activity held in these two regions as well.

Local-market compared with cross-border deals (all nations)
Measured by number of deals worth $50 million or more

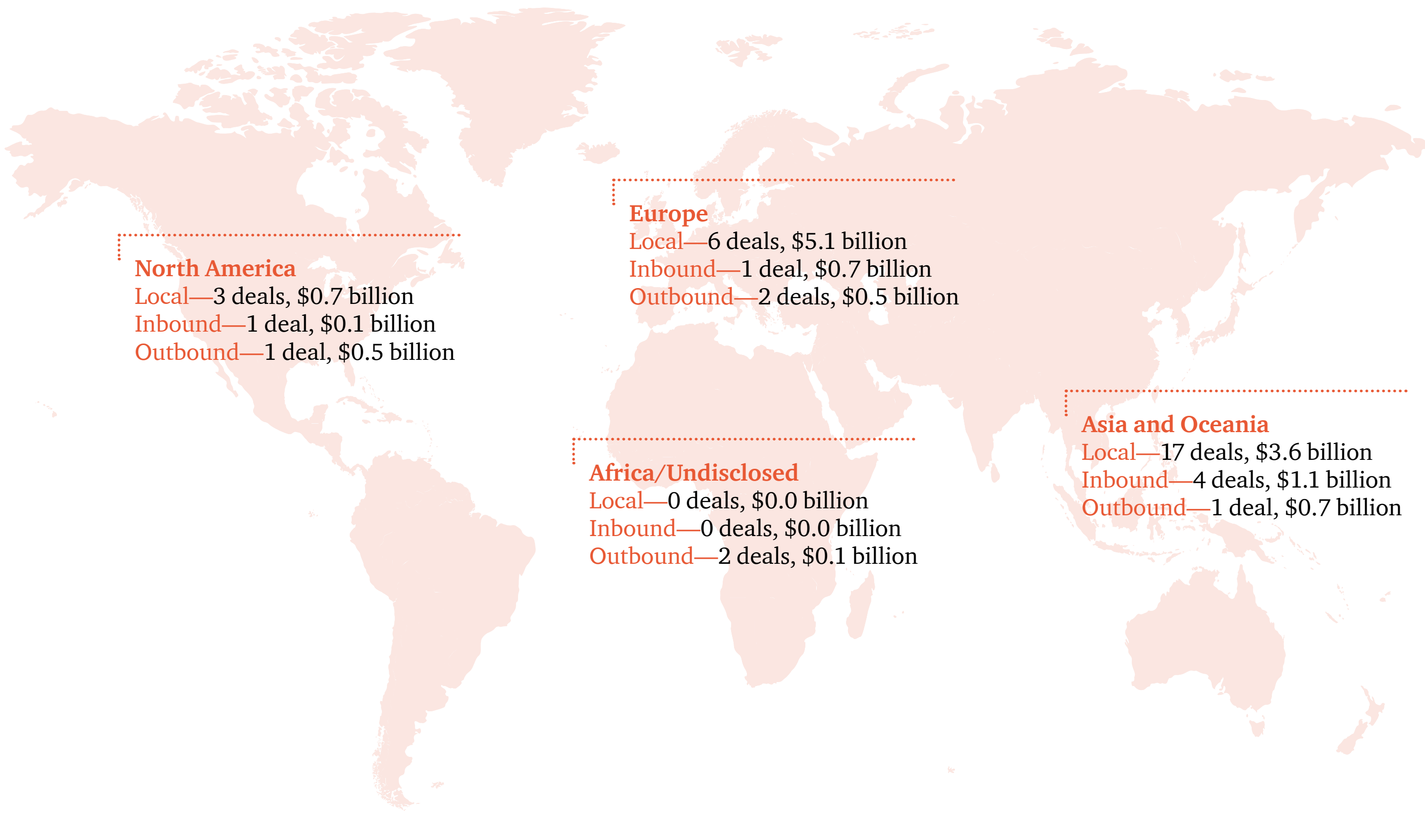


US compared with non-US aquirers of US targets
Measured by number of deals worth $50 million or more

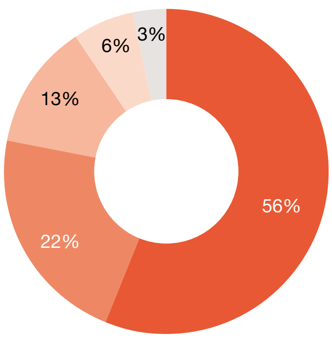


Global E&C M&A activity

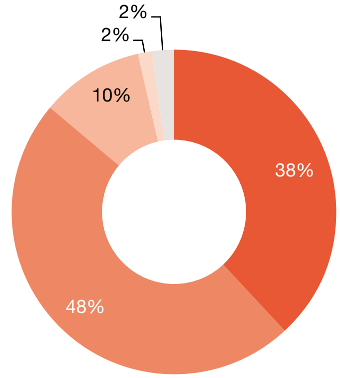
Measured by number and value of deals worth $50 million or more (1Q12)



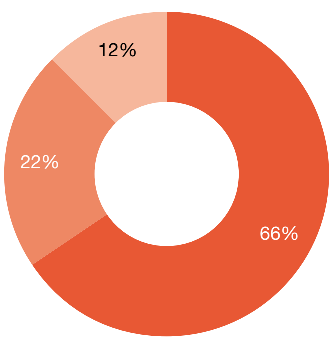
Regional distribution of deals by acquirer region
Measured by number of deals worth $50 million or more (1Q12)



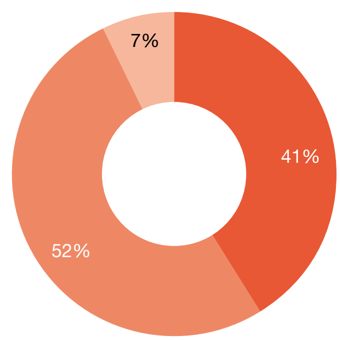
Regional distribution of deals by acquirer region
Measured by value of deals worth $50 million or more (1Q12)



Regional distribution of deals by target region
Measured by number of deals worth $50 million or more (1Q12)

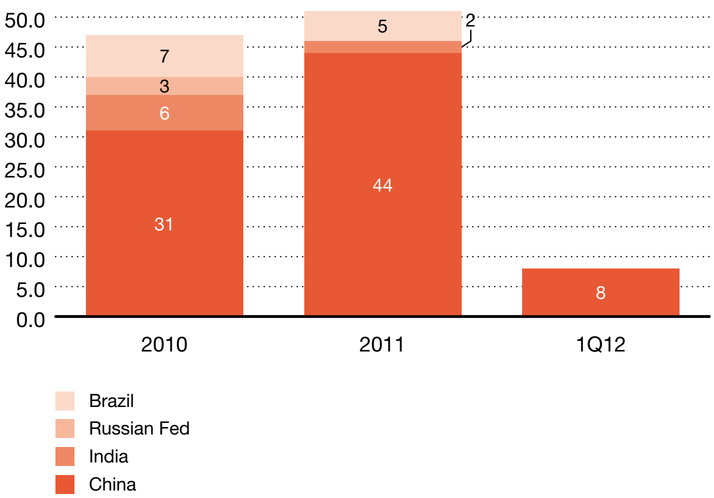


Regional distribution of deals by target region
Measured by value of deals worth $50 million or more (1Q12)

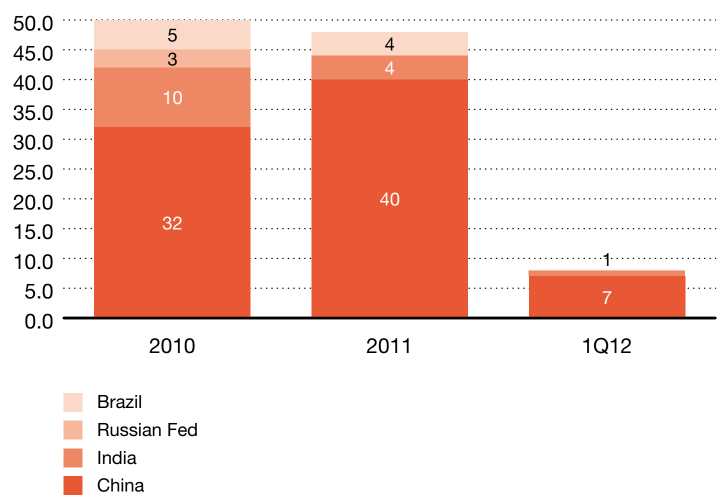


Asia & Oceania | UK & Eurozone | North America | Africa/Undisclosed | Europe ex-UK & Eurozone | South America

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



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



BRICs

We expect the growth in the construction industry in Brazil, Russia, India, and China to be fueled by the countries' strong economic development; growing infrastructure and urbanization needs; and access to significant financial capital from domestic, government, and foreign sources.

There was no surprise that China dominated the BRIC region's deal activity in the first quarter of 2012. While the business environment in China for foreign companies remained challenging, local E&C companies benefited from a wealth of government-funded infrastructure programs, including the Hong Kong Airport.

Chinese government plans to build large infrastructure projects, including the longest cable bridge in the world, are likely to stimulate significant growth in the domestic E&C sector. The government has also devoted substantial funds for water treatment facilities as well as skyscraper projects. In addition, there are plans to build satellite cities around the major hub cities in the country. Such plans would require a wealth of not only engineering and construction services, but also construction materials, technology, and human capital. All of these factors, combined with the increasing size and complexity of the upcoming projects, are likely to drive consolidation in the Chinese domestic E&C environment in the quarters to come.

Even though Brazil didn't contribute any deals to the first quarter of M&A, our outlook for the Brazilian E&C industry remains positive. The World Cup 2014 and the 2012 Olympics in Rio de Janeiro both require significant stadium construction, urban transportation, and infrastructure projects. Even outside the large sporting events, Brazil has great infrastructure needs, which are likely to be partly sponsored by the increasing role of public-private partnerships (PPPs). These factors are expected to drive interest in the Brazilian E&C sector and ultimately result in a greater level of M&A.

Also in the first quarter of 2012, the largest mega-deal involved a Brazilian cement subsidiary, indicating the financial wealth and inorganic growth willingness and ability of companies from this country. One major obstacle that has restricted M&A activity in the past, and is likely to continue to play a negative role in the future deal making in Brazil, is the requirement for companies to be incorporated in Brazil.

India contributed one deal to the E&C M&A activity in the first quarter of 2012 and put India on target to meet the 2011 levels. Although we remain cautiously optimistic for the E&C sector in India, we point out that project planning and execution take significant time in the country. Because of substantial red tape, deal activity might remain slightly subdued in India. Interestingly, Japanese investors provided the funding for the building of the Delhi Mumbai manufacturing corridor, which is among the largest current E&C projects in the country. But local consolidation is likely in the E&C space in the quarters to come, as foreign companies' access remains restrained by red tape.

PwC experience

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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.

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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.

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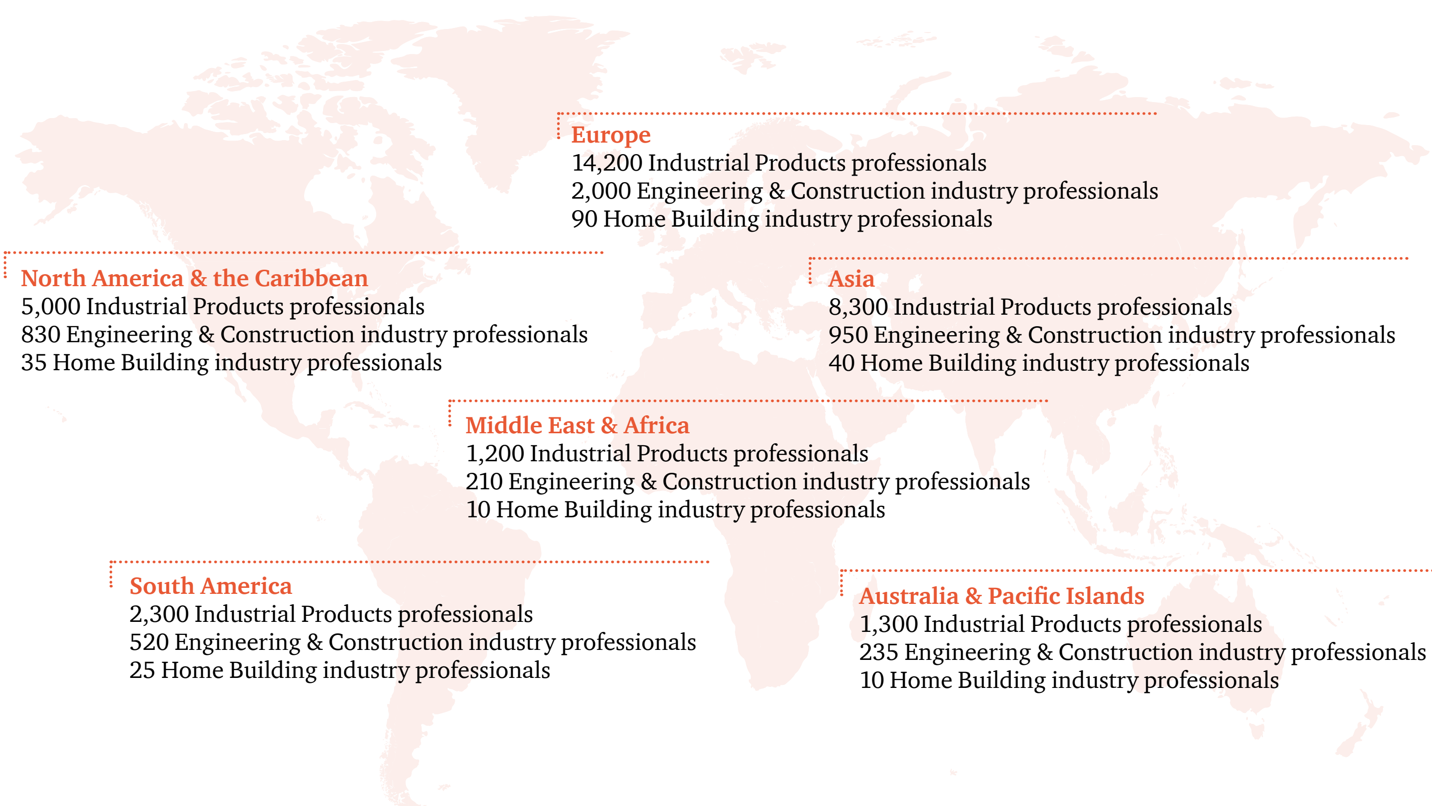

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Methodology

Engineering growth is an analysis of deals in the global engineering and construction industry. 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; non-clay 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 April 1, 2009, and March 31, 2012, 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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