

Engineering growth Third-quarter 2010 global engineering & construction mergers and acquisitions analysis

*Curate's egg:
The changing deal
environment*



Welcome to the third-quarter 2010 edition of *Engineering growth*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the global engineering and construction industry. In addition to a detailed summary of M&A activity in the quarter, including number and value of deals, this edition contains a special report on the unstable global economy and its impact on the strategic deal environment. Similar to a "curate's egg," today's economic expectations are a mixed bag of positive and negative. To strengthen their core businesses, many companies are expanding their foreign investments, but while emerging markets offer opportunities to grow, they also present commercial risks and challenges.

Special report: Curate's egg: The changing deal environment

A curate and his egg

An English idiom, “curate’s egg” comes from a cartoon in the British magazine **Punch** in November 1895. Over time, the phrase curate’s egg has evolved to mean something having a mix of good and bad qualities.

Today’s global economy is like a curate’s egg. Economic expectations are good and bad, positive and negative. As the US economy’s unpredictability generates greater concern, engineering and construction (E&C) companies are exercising caution as they consider strategic deals in emerging markets where growth in the gross domestic product (GDP) is high.

The concept of a mixed bag is especially relevant to the E&C industry’s M&A market. On the positive side, the number of deals closed during the third quarter of 2010 shot up significantly from the previous year, an indication that the global economy is stabilizing. On the downside, worries continue about a protracted economic recovery or another recession, and many global buyers and sellers are taking a wait-and-see approach to deal making.

Meanwhile, US E&C companies continue to focus on their core businesses and creation of the capital resources necessary to grow these businesses in emerging markets. However, the valuations attached to emerging market businesses are very high, resulting in pricing gaps and difficulties closing deals.

E&C companies are under stakeholder pressure to find growth opportunities, and most commentators predict that the Western economies will be sluggish for the next several years. So investors may look to Brazil, India, China, and to a lesser extent, Russia—the BRIC countries—where GDP growth projections for 2011 range from 4% to more than 9%¹. In addition to BRIC, companies are looking at the VISTA countries, Vietnam, Indonesia, South Africa, Turkey, and Argentina, as well as Mexico, which is becoming more attractive. Despite cash-rich balance sheets and a willingness to invest into an emerging market, many E&C corporations are finding it difficult to expand their presence into these markets because of not only valuation, but also lack of shareholder visibility and financial transparency in these countries.

Although many companies have realized benefits and rich rewards from foreign investment, it has come with risks. Emerging markets offer opportunities to grow, but they also present commercial risks such as protection of intellectual property, compliance with foreign laws and regulations, fraud and corruption, and cultural differences.

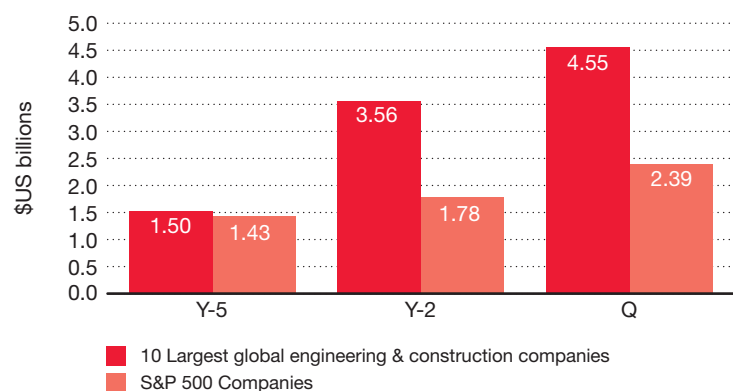
And a changing deal environment adds to the challenges.

What’s driving changes in the deal environment?

E&C companies spent much of the past two years focusing on their core businesses and tailoring their business processes and structures to become more efficient. As a result, many of these companies have excess cash on their balance sheets. Those willing to hurdle the obstacles that foreign investment presents will look to emerging markets for acquisitions that are expected to strengthen their core businesses. A research analysis of the ten largest global E&C companies shows that their average amount of cash in the most recent quarter is \$4.55 billion, up from an average of \$1.5 billion five years ago.

Average cash of engineering & construction companies

Q = most recent quarter reported,
Y-2 = two years prior, Y-5 = five years prior



¹ Source: IMF, PwC Forecasts

Although it appears E&C companies have ample cash on hand to finance deals, price becomes an issue when growth rates are higher in the emerging market than in the buyer's home country. For risk-averse US and European E&C companies, it can be difficult to get comfortable with the premium attached to emerging market businesses. It should be noted that not all E&C company CEOs are risk averse. Rather, they are becoming more deliberate about reshaping not only their strategies, but also their capabilities to address risk.

Risk aversion also affects buyers from emerging markets seeking to buy low-growth assets within the United States or Europe. In these cases, skepticism about the true value of the asset often derails the deal. Many E&C companies in emerging markets are waiting to see how the US and European economies rebound over the next two quarters before investing.

With 2011 GDP projections in the United States and Western Europe below 3%, organic growth for E&C companies is limited at best. Growing by further reducing costs is not a realistic option—most companies have already taken drastic measures to cut costs and improve operating efficiencies. This explains why most global E&C companies see M&A as the most viable way to meet stakeholder expectations to grow in the current economic environment despite the aversion to risk.

E&C companies that have already made a significant investment in emerging economies over the past 10 to 20 years are putting plans in place to improve operations and expand their presence to meet booming local demand.

Finally, capital markets are more liquid, making deal financing—in the event it's needed—more accessible than it was a year ago. Financial buyers, such as private equity houses, continue to operate in the deal market but at subdued levels, making increased corporate buyer activity more likely.

Managing a changed deal environment

Because of the increased uncertainty, companies are structuring deals in new ways and handling them differently. Specifically, many are avoiding large, staged auctions, except in cases that involve a sizable, high-profile asset. The trend today is toward one-to-one negotiations in off-market deals, where the buyer proactively identifies and approaches the target. This approach allows for confidential discussions away from media scrutiny. In this way, corporations looking to divest themselves of non-core businesses can position them for a sale by identifying and briefing the potential A-list buyers.

In general, E&C companies have become more cautious and diligent about what they are buying. They no longer favor diversification as a global M&A theme. Instead, E&C companies are looking for deals that can provide new strategic opportunities. For example, bundling services may provide their customers with solutions rather than just products, a move that could generate higher revenue and help customers to leverage synergies throughout their organization.

More than ever, deals today must fit strategically and commercially with existing operations and drive synergistic growth.

Perspectives: Thoughts on deal activity in the third quarter of 2010

The third quarter saw an improvement in deal value compared with the second quarter; however, deal volume lagged for deals with values of \$50 million or more. Still, at the rate it's progressing—35 deals were announced in the third quarter—2010 likely will exceed the 2009 total in deal volume. Total year-to-date deal value already exceeds that of full-year 2010. We expect deal activity will continue to build momentum through 2010 as the deal environment continues to improve. It should be noted, however, that based upon the recent increase in the proportion of minority stakes in the third quarter, some characteristics of risk avoidance remain.

As global economic trends continue to improve, smaller deals and transactions with undisclosed values remain the drivers of overall activity. This parallels what we have seen historically. At the same time, the value of mega-deal activity (deals worth at least \$1 billion) has increased significantly, and large and middle-market deal values also have improved, albeit at a lower level. The near-term outlook remains favorable for continued growth. There were two mega-deals in the third quarter, the same number as in the second quarter. Spain-based Trebol Holding's \$3.77 billion local market offer for a minority stake in Abertis Infraestructuras SA and Spain-based Actividades de Construccion y Servicios SA (ACS)'s cross-border hostile takeover of German-based Hochtief AG for \$3.39 billion boosted average deal value from \$266 million to \$372 million in the third quarter.

In third-quarter 2010, strategic investor contribution increased and accounted for almost three-quarters of deal volume. Based on deal value to EBITDA and deal value to sales, valuations have been declining compared with prior periods. Strategic investors who have realized that organic growth is insufficient during the current recovery are turning to acquisitive growth. Historically, E&C companies have turned to acquisitions to achieve targeted growth rates, improve technical competencies, and increase geographic reach; up to one-half of growth has been driven by mergers and acquisitions.

During the third quarter, targets in Asia and Oceania continued to drive deal activity, although at a smaller proportion than seen previously, as 43 percent of all transactions valued at \$50 million or more were announced in the region. In relative terms, the proportion of deals involving North American targets increased from 11 percent in the second quarter to 23 percent in the third quarter. This was driven, in part, by the fact that US deals increased as a percentage of deal volume compared with the first half of 2010. This growth in the United States might indicate that while the US economy has not fully recovered, the environment has improved enough to compel US-based entities to initiate lower-value deals. While the UK and Eurozone saw a decline in activity between the first half and the third quarter, the Europe ex-UK and Eurozone region saw improvement in activity, increasing from 10 percent in the first half to 14 percent in the third quarter of 2010.

Once again, China was the key driver of BRIC-related activity. Of the 10 deals announced for BRIC targets, seven were for targets in China; of the eight deals announced by BRIC acquirers, six were by Chinese companies. The Chinese deals were predominantly local market (six deals) and were predominantly for construction (three targets) and construction machinery and materials (two targets) companies.

Looking ahead, we see a number of indicators that the deal environment will continue to improve. For example, credit access continues to be good. And equity markets are advancing. (In September, US stocks saw their largest monthly increase in more than 70 years.) However, high levels of unemployment and weak residential construction activity, particularly in the United States and other developed economies, highlight remaining weaknesses. Also, concerns about weak economic growth and the possibility of a double-dip recession might continue to constrain investment. Nevertheless, we believe buyers are becoming increasingly optimistic in their near-term economic outlooks. Cash conservation, cost containment, and margin expansion remain relevant considerations; however, valuations remain constrained relative to historical levels, which will continue to present buying opportunities for companies with strong balance sheets. These factors, combined with strong cash-generating capabilities for E&C companies, lead us to conclude that activity will continue to increase, at least in the near term.

Commentary: Third quarter volume advances

Deal volume declined in third-quarter 2010 compared with the previous quarter. However, the general recovery in deal volume and value since first-quarter 2009 has continued, and going forward we expect activity to continue. Average deal value increased compared with the second quarter (\$0.4 billion versus \$0.3 billion), primarily driven by an additional \$3.6 billion value of mega-deal activity.

Quarterly E&C deal activity

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

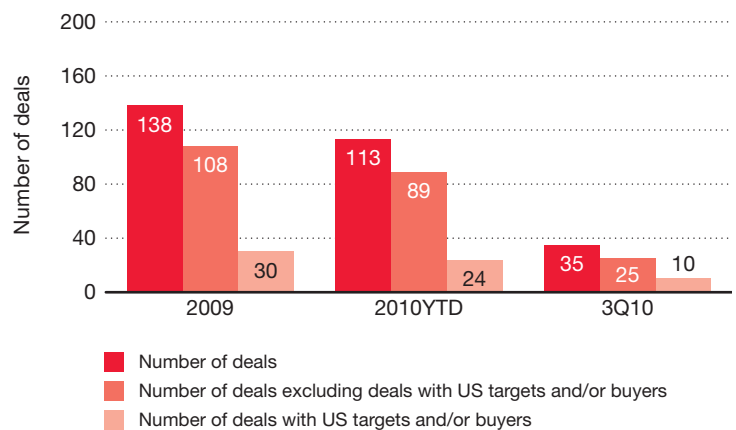
	2007		2008			2009				2010		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Number of deals	52	57	66	42	45	15	33	36	54	35	43	35
Total deal value (\$ bil.)	40.99	15.34	17.53	13.68	23.03	2.59	10.66	8.43	20.51	24.74	11.43	13.03
Average deal value (\$ bil.)	0.8	0.3	0.3	0.3	0.5	0.2	0.3	0.2	0.4	0.7	0.3	0.4

US-affiliated volume increasing, but value still low

The percentage of deals involving US targets and/or buyers increased in the third quarter. Of the 35 transactions that took place, 10 (almost 29 percent) involved a US entity. This compares with 18 percent in the first half of 2010. However, US-based transactions contributed only 16 percent of third-quarter deal value, well below the first half proportion of almost 39 percent. Still, US deals are increasing as a percentage of deal volume as compared with the first half of 2010. This may indicate that while the US economy has not fully recovered, US-based entities are encouraged by the improvement they see in the environment, and they are testing the waters with lower-value deals.

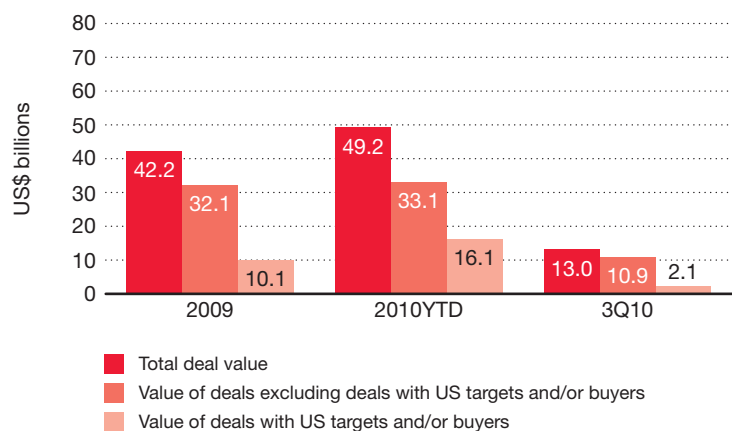
Deal activity by number of deals

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



Deal activity by total deal value

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



Smaller deals continue to drive activity, but larger deals increasing

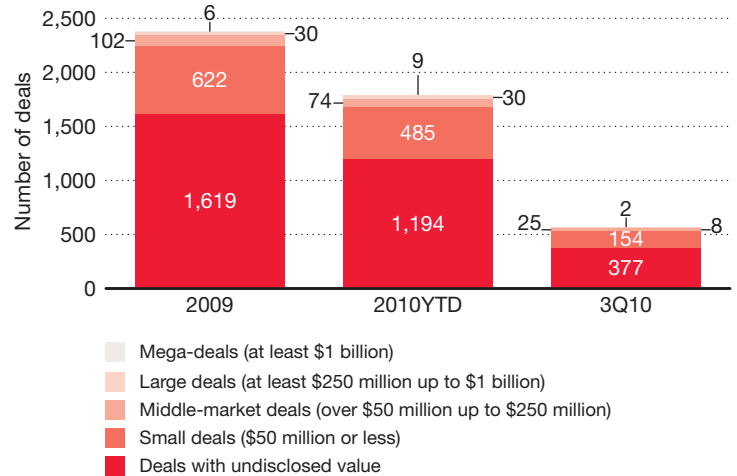
As global economic trends improve, smaller deals and transactions with undisclosed values remain the drivers of overall activity, in line with historical trends. However, mega-deals contributed a significantly higher percentage to value in the third quarter than they did in the second quarter, although volume remained the same, at two deals each quarter. Middle-market deals (with a value between \$50 million and \$250 million) increased as a proportion of deal value as well.

Third quarter strategic investments increase

Over the past few years, private equity firms have faced considerable fundraising challenges, deterring their participation in the deal environment. Their involvement remains weak, indicating they are not yet willing or able to enter into E&C investments in a big way. We believe this unwillingness to be due, in part, to backlog concerns, as funding for future projects appears to remain uncertain pending the impact of the elections in the United States. In third-quarter 2010, financial investors' contribution to M&A activity declined but still drove more than one-fourth of deal volume. Current market valuations, based on deal value to EBITDA and deal value to sales for targets, fell significantly. With valuations constrained and sales growth continuing to exhibit weakness, strategic investors may see M&A as a method to improve growth and enter untapped geographic markets.

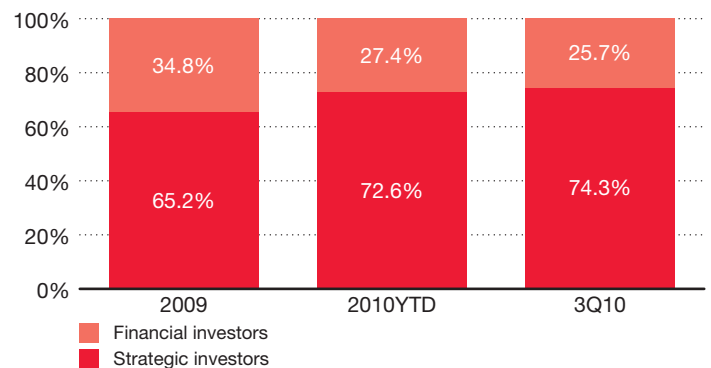
Deal activity by number and range of deal value

Measured by number of deals



Deal activity by investor group

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



Mega-deal value continues to grow

There were two mega-deals (transactions of \$1 billion or more) in the third quarter, the same number as the second quarter. However, deal value for third quarter mega-deals was \$7.2 billion, compared with \$3.55 billion in the second quarter, an increase of more than 100 percent. Both transactions during the third quarter involved UK and Eurozone-based targets: Spain-based Trebol Holdings Sarl's \$3.77 billion local market offer for a minority stake in Spain-based Abertis Infraestructuras SA and Spain-based Actividades de Construccion y Servicios SA (ACS)'s cross-border hostile takeover of German-based Hochtief AG for \$3.39 billion.

Mega-deal activity by value in the first three quarters of 2010 almost doubled that of 2009 overall, and mega-deal activity in the first three quarters, as measured by number of deals, also exceeds that of 2009. This increased activity of mega-deals over 2009 is, in part, a consequence of reduced capital constraints (i.e., the difficulty in raising capital at attractive costs in the market is decreasing) and low activity in much of 2009. Although mega-deal activity remains constrained when compared with longer-term historical averages, over the near term we believe the level of deal activity should continue to improve as buyer interest expands and risk premiums contract to account for improving outlooks.

Mega-deals in 2008							
Month Announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Dec	Itinere	Spain	Pear Acquisition Corporation SL	Spain	Completed	7.93	Construction
Dec	Grupo Ferrovial SA	Spain	Concesiones de Infraestructuras de Transporte SA{Cintra}	Spain	Completed	4.00	Construction
Jul	Xella International GmbH	Germany	Xella International GmbH SPV	France	Completed	3.18	Nonmetallic minerals manufacturing
Jul	Cegelec SA	France	Qatari Diar Real Estate Investment Co QSC	Qatar	Completed	2.96	Civil engineering
Dec	Itinere	Spain	Pear Acquisition Corporation SL	Spain	Completed	1.36	Construction
Mar	Cie de Saint-Gobain SA	France	Wendel SA	France	Completed	1.22	Nonmetallic minerals manufacturing
Apr	Safety-Kleen Europe Ltd	United Kingdom	Warburg Pincus LLC	United States	Completed	1.12	Construction
Jan	Tenaris SA-Hydril Pressure Control Business	United States	GE Oil & Gas	Italy	Completed	1.12	Construction machinery and materials
Jan	INVIN SL	Spain	Investor Group	Spain	Completed	1.05	Construction
Apr	Eiffage SA	France	Groupe Caisse des Depots & Consignations{CDC}	France	Completed	1.01	Construction
Mega-deals in 2009							
Month Announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Dec	Cimpor Cimentos de Portugal SGPS SA	Portugal	Cia Siderurgica Nacional	Brazil	Withdrawn	5.66	Nonmetallic minerals manufacturing
Apr	Centex Corp	United States	Pulte Homes Inc	United States	Completed	3.11	Homebuilding

Dec	Daewoo Engineering & Construction Co Ltd	South Korea	KDB PEF	South Korea	Pending	2.47	Civil engineering
Aug	Cegelec SA	France	VINCI SA	France	Completed	1.71	Civil engineering
Jun	Cemex SAB de CV-Australian Assets	Australia	Holcim Ltd		Completed	1.63	Nonmetallic minerals manufacturing
Dec	Terex Corp-Mining Business	United States	Bucyrus International Inc	United States	Completed	1.30	Construction machinery and materials

Mega-deals in 2010 YTD

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
Jul	Abertis	Spain	Trebol Holdings Sarl	Spain	Pending	3.77	Construction
Sep	Hochtief AG	Germany	Actividades de Construccion y Servicios SA{ACS}	Spain	Intended	3.39	Construction
Jun	Subsea 7 Inc	Norway	Acergy MS Ltd	United Kingdom	Pending	2.50	Civil engineering
Mar	Kumho Industrial Co Ltd	South Korea	Creditors	South Korea	Completed	2.21	Civil engineering
Jan	Arabtec Holdings PJSC	United Arab Emirates	Aabar Investments PJSC	United Arab	Withdrawn	1.75	Homebuilding
Jan	Cimpor Cimentos de Portugal SGPS SA	Portugal	Camargo Correa Portugal SGPS SA	Portugal	Completed	1.33	Nonmetallic minerals manufacturing
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

Mega-deals in 3Q10

Month Announced	Target name	Target nation	Buyer name	Buyer nation	Status	Value of transaction in US\$ bil.	Category
Jul	Abertis	Spain	Trebol Holdings Sarl	Spain	Pending	3.77	Construction
Sep	Hochtief AG	Germany	Actividades de Construccion y Servicios SA{ACS}	Spain	Intended	3.39	Construction

Construction and homebuilding categories drive activity

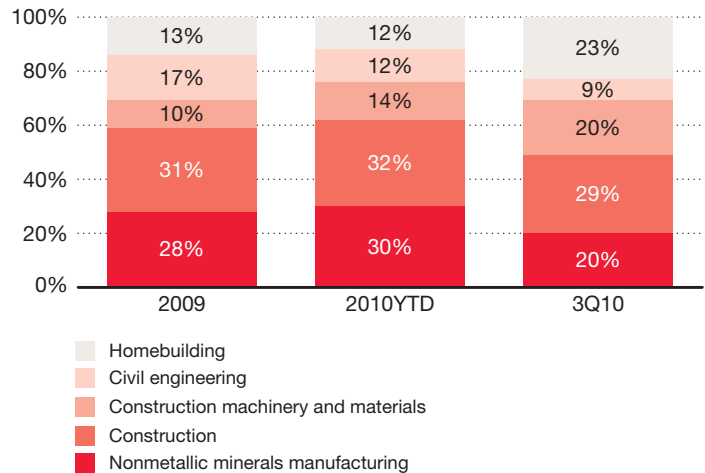
PwC segments the engineering & construction sector into five categories by comparing standard industrial classification (SIC) codes to our internal classification system. Based on this process, we group deals (measured by number) into five product and service segments:

- Homebuilding
- Civil engineering
- Construction machinery and materials
- Construction
- Nonmetallic minerals manufacturing

Based on this methodology, during the third quarter of 2010, targets classified as construction and homebuilding were the primary categories driving activity, contributing more than half of the quarter's activity. Homebuilding's contribution to deal activity increased significantly in the third quarter relative to 2009 and 2010 year-to-date, while construction's contribution decreased slightly. It should be noted that of the two mega-deals in the third quarter, both (Abertis Infraestructuras and Hochtief) fall within the construction category. The increase in homebuilder activity may indicate optimism by buyers that are positioning themselves for an anticipated increase in demand for residential real estate.

Deals by engineering & construction category

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



Note: Due to rounding, totals may not equal 100%

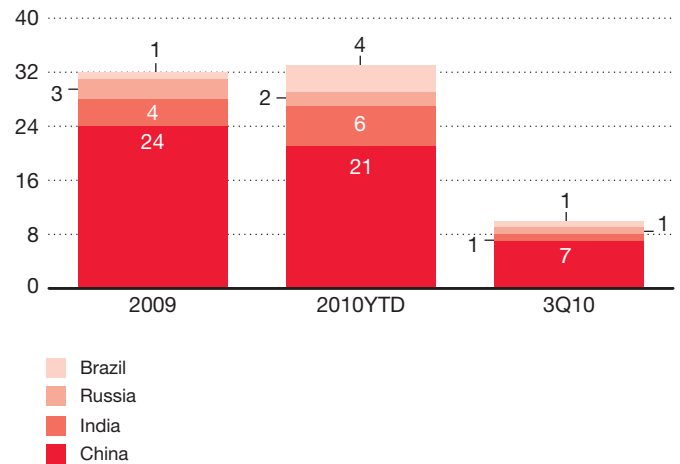
BRIC-affiliated transactions decreasing, in line with overall deal activity

Just as deal activity overall declined somewhat during the third quarter as measured by number of deals, the level of activity affiliated with BRIC countries also fell, decreasing sequentially to 10 deals in the third quarter.

China generated most of the BRIC-related activity. Of the 10 deals announced for BRIC targets, seven were for targets in China. Of the eight deals announced by BRIC acquirers, six were by Chinese companies. The Chinese deals were predominantly local market (six deals); the Chinese deals were predominantly for construction (three targets) and construction machinery and materials (two targets) companies.

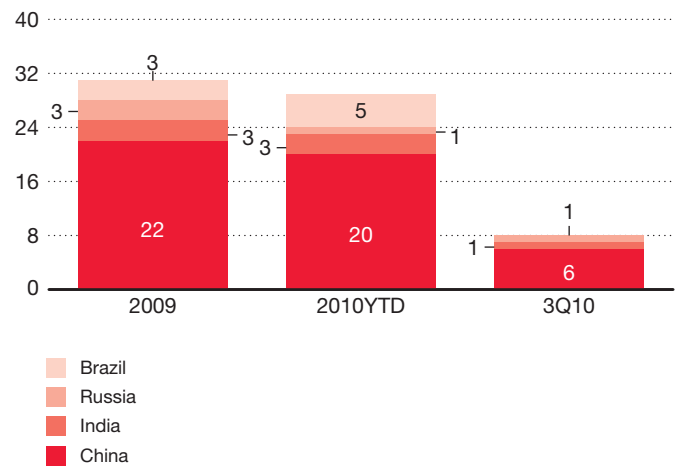
Distribution of BRIC deals by target nation, measured by number of deals

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



Distribution of BRIC deals by acquirer nation, measured by number of deals

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



Regional analysis

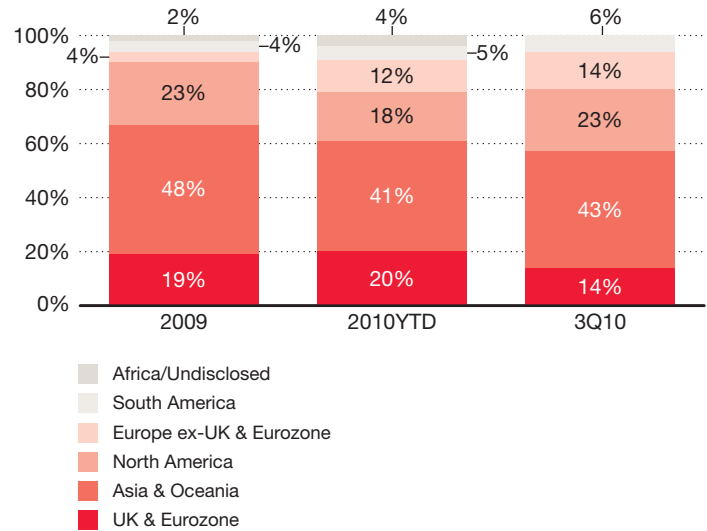
Asia & Oceania leads deal activity, significant increase seen in Europe ex-UK and Eurozone

During the third quarter, targets in Asia and Oceania continued driving deal activity, accounting for 43 percent of all transactions valued at \$50 million or more. In relative terms, North America increased significantly, to 23 percent in the third quarter. While the UK and Eurozone saw a decrease in activity, Europe ex-UK and Eurozone region saw continued improvement in activity, increasing from 4 percent in 2009 to 14 percent in the third quarter of 2010.

The Asia & Oceania region continues to dominate geographic trends for acquirers as well. A considerable portion of the activity in Asia involved local market deals, particularly in China, where Chinese companies increased their stakes in subsidiaries and joint ventures. We expect this region will continue to drive deal activity as China continues its rapid infrastructure expansion. It should be noted that a large proportion of deal value from acquirers in the UK & Eurozone was due to the mega-deals in third quarter 2010.

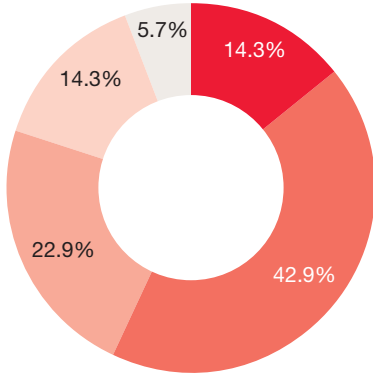
Regional distribution of deals by target region

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



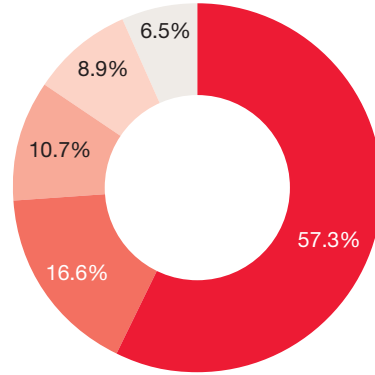
Regional Distribution of Deals by Target Region

Measured by number of deals worth \$50 million or more (3Q10)



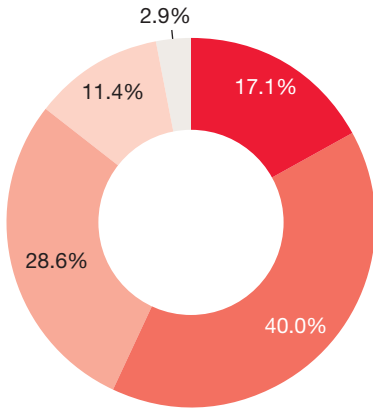
Regional Distribution of Deals by Target Region

Measured by value of deals worth \$50 million or more (3Q10)



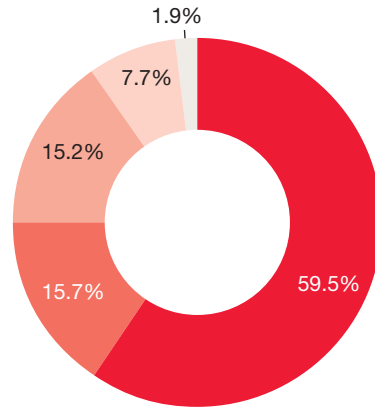
Regional Distribution of Deals by Acquirer Region

Measured by number of deals worth \$50 million or more (3Q10)



Regional Distribution of Deals by Acquirer Region

Measured by value of deals worth \$50 million or more (3Q10)



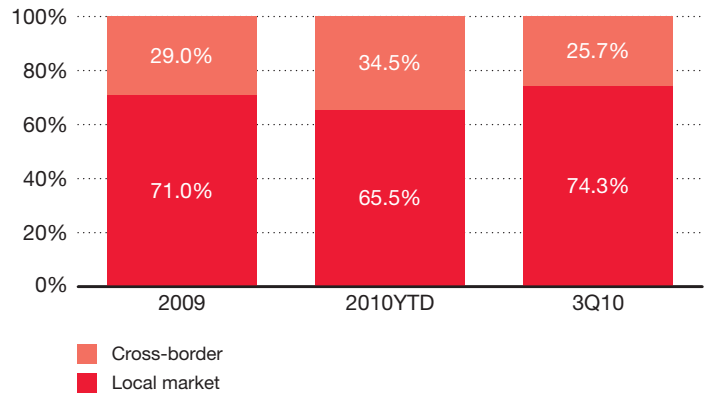
■ UK & Eurozone ■ Asia & Oceania ■ North America ■ Europe ex-UK & Eurozone ■ South America ■ Africa/Undisclosed

Allocation of cross-border deals shows significant decline

Historically, cross-border transactions have been an integral part of the M&A story, and since 2009, they have been steadily increasing as a percentage of deal volume. However, the third quarter showed a decline in these deals when compared with the first half of the year. Due to political, socioeconomic, and currency risks, cross-border transactions generally entail greater levels of risk than local market transactions do, so the greater concentration of local market activity during the third quarter may be indicative of buyer concerns regarding the sustainability of the current economic recovery, at least in the short term. However, as the economy improves, cross-border deal activity should return to growth as perceived rewards begin to outweigh perceived risks. This increase in cross-border activity will also be aided by the perceived need of corporations to augment slow organic growth by entering into new, faster growing geographies, repositioning product portfolios for increased growth, etc.

Local market vs. cross border deals (all nations)

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



PwC Spotlight

Results from PwC's 13th annual Global CEO Survey (2010) showed that chief executive officers (CEOs) from large companies were more likely than smaller companies to complete an acquisition or enter a strategic alliance. Leaders of large corporations also were planning deals and alliances in the coming year, according to the survey released in January 2010. And many of these planned transactions were expected to be cross-border deals because of the opportunities available in emerging markets.

As growing economic interdependencies drive more and more companies to venture beyond their own country's borders to find their ideal acquisition candidate, the appeal of cross-border deals will continue to grow. The PwC Corporate Finance practice assists in midmarket M&A transactions daily, and more than 40% of those deals are cross-border.

Savvy acquirers learn lessons from each successful cross-border transaction and use that knowledge to navigate effectively through obstacles such as questionable business practices, inconsistent bookkeeping methods, political instability, and poor environmental controls. And while the challenges of cross-border deals differ depending on the size of the business and the country, leading companies conduct deals using essentially the same processes: establishing the strategic purpose for each acquisition; managing and monitoring employee engagement; addressing change management issues; applying best practices for integration; and tracking progress toward achieving the desired cultural end state of the new company.²

How PwC Corporate Finance³ can help

PwC's corporate finance professionals provide a full range of M&A and financial advisory services, from acquisitions and disposals, through to equity and debt raising, debt refinancing, public-private partnership arrangements and complex procurement, across all industry sectors, to corporations, private equity firms, public sector bodies, sovereign wealth, and other investment funds.

Our international network of corporate finance advisors makes the difference because:

- We have a talented team of more than 1,000 corporate finance professionals operating in more than 60 countries—we can deploy them whenever and wherever you are doing deals.
- We provided in-depth financial advice on more than 300 deals globally in 2008, which amounts to “a deal a day.” The aggregate value of these deals was more than \$33 billion, of which more than 40% were cross-border.
- We have extensive industry capabilities, expertise in local markets, and a proven track record advising corporate clients and institutional investors.
- Thompson Reuters reported that PwC Corporate Finance completed the second-highest volume of deals globally in the midmarket for the 10 years through December 31, 2009.
- We can bring the strength of the PwC Corporate Finance network to bear by sourcing acquisition targets globally, including the BRIC countries and other emerging markets.

As experienced deal makers, we offer integrated solutions with full access to PwC's due diligence, tax, and post-deal specialists. We are independent of finance, so our team is able to provide objective advice to our clients.

² PwC Global Best Practices, Analyze and capitalize on cross-border opportunities

³ Corporate Finance services in the US are performed by PricewaterhouseCoopers Corporate Finance LLC, a registered broker dealer. PricewaterhouseCoopers Corporate Finance LLC is owned by PricewaterhouseCoopers LLP, a member firm of the PricewaterhouseCoopers Network, and is a member of FINRA and SIPC.

Specialty Case Studies: Buying and selling global assets

Non-core disposals

Issue

A global E&C company based in Europe made a strategic decision to sell one of its non-core business units located in the United States, but needed help planning, executing, and finalizing the divestment in a manner to maximize proceeds. In particular, the client needed assistance finding an appropriate global buyer, determining valuation, anonymously soliciting interest from global buyers, as well as presenting the non-core business in the best light. Complicating the transaction, the financial records of the business to be divested were integrated into the financial records of the client's other operations and needed to be carved out.

Action

To help the client find the right buyer for its business unit, PwC's corporate finance practice conducted a global sales process and contacted more than 50 potential buyers in the United States, Canada, Europe, Brazil, South Africa, and Asia, including India, China, and Japan. PwC Corporate Finance assisted in understanding and positioning the business for sale, acting as the initial point of contact with the potential buyers, and assisting with the negotiations around price and the other major terms in the sale and purchase agreement. The sale process also included the negotiation of multiple ancillary supply, tolling, and transition service agreements.

A PwC Transaction Services engagement team assisted and advised the client as they drafted separate and accurate financial records for the business unit to be divested. These financial statements formed the basis from which potential buyers were then asked to submit offers for the business.

Impact

The Corporate Finance engagement team's sale process yielded nearly a dozen indicative offers and six final offers. Of the indicative offers, four were from the United States and Canada, four were from Asia, and three were from Europe. Most of the offers were from strategic buyers, and the deal was closed with an Indian buyer for a US asset owned by a European client.

The PwC sell-side diligence information withstood scrutiny from multiple buyers, and the client was able to successfully achieve its divestiture objectives. The client sold the business to a buyer for a price that was within 3% of the top end of the PwC Corporate Finance team's preliminary valuation range.

Acquisition identification and advice

Issue

A US E&C company wanted to enter a high-growth market as a way to meet stakeholder demands to accelerate growth. The client had its sights set on a Chinese target, but had limited knowledge of the country and how to find a suitable target. To move its plans for strategic growth forward, the client informed PwC Corporate Finance in the US of its global acquisition criteria.

Action

PwC Corporate Finance US reached out to PwC's global Corporate Finance network with the acquisition criteria. As a result, PwC Singapore identified a potential acquisition target that was based in China and owned by a private equity house in Singapore. Due to an existing relationship between PwC Singapore and the private equity house, the corporate finance engagement team was able to introduce the US client to the target on an exclusive basis without the deal going to an auction. The firm's Transaction Services practice in both the US and China provided the due diligence services to the US client.

Impact

A US client with limited exposure or experience in the Asian market was given an opportunity to buy a business in China. The PwC Corporate Finance engagement team assisted in the negotiations, including negotiations on pricing and structure, as well as the due diligence on the acquisition target. Because the deal was handled as a one-to-one, off-market transaction, the client acquired the Chinese business on an exclusive basis at an acceptable price.

PwC's engineering & construction experience

Deep E&C experience

PwC provides advisory, assurance, or tax services for nearly 90 percent of the engineering and construction companies listed in the Fortune 500. Our Engineering & Construction industry practice is composed of a global network of approximately 4,800 industry professionals who service approximately 20,000 engineering and construction companies around the world. We specialize in servicing private and public contractors, homebuilders, 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 deal professionals

PwC's Transaction Services practice, with more than 6,500 dedicated deal professionals worldwide, has the right industry and functional experience to advise you on factors that could affect a transaction, including market, financial accounting, tax, human resources, operating, information technology, and supply chain considerations. 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 over 32,000 professionals, including approximately 17,000 providing assurance services, 8,300 providing tax services, and 7,000 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.



Contacts

PwC's Engineering & Construction practice **PwC Corporate Finance global network**

PwC's Engineering & Construction practice provides industry focused assurance, tax, and advisory services. Through our global network, we can draw upon the technical and industry experience of specialists in every country in which your company operates.

US Engineering and Construction Industry Leader
H. Kent Goetjen—+1.860.241.7009
h.kent.goetjen@us.pwc.com

Global Engineering and Construction Industry Leader
Jonathan Hook—+44.22.7804.4753
jonathan.hook@uk.pwc.com

US Engineering and Construction Tax Leader
Robert Cauley—+1.703.918.3283
robert.cauley@us.pwc.com

US Engineering and Construction Advisory Leader
Derek Hennessey—+1.617.530.5624
derek.j.hennessey@us.pwc.com

US Engineering and Construction Transaction Services Partner
Michael Collier—+1.713.356.8133
michael.collier@us.pwc.com

US Corporate Finance Director
Rakesh R. Kotecha—+1.312.298.2895
rakesh.r.kotecha@us.pwc.com

US Industrial Products Director
Neelam Sharma—+1.973.236.4963
neelam.sharma@us.pwc.com

US Industrial Products Marketing Manager
Diana Garsia—+1.973.236.7264
diana.t.garsia@us.pwc.com

US Industrial Products Sector Analyst
Tom Haas—+1.973.236.4302
thomas.a.haas@us.pwc.com

US Research Analyst
Sean Gaffney—+1.813.348.7461
sean.gaffney@us.pwc.com

Editorial Contributor
Kathy Robbins—+1.813.348.7404
kathy.l.robbins@us.pwc.com

Corporate Finance services in the US

US Industrial Products Corporate Finance Leader
PricewaterhouseCoopers Corporate Finance LLC
Rakesh Kotecha—+1.312.298.2895
rakesh.r.kotecha@us.pwc.com

Corporate Finance services outside the US

Global Corporate Finance Leader
Chris Hemmings—+44.20.780.45703
chris.hemmings@uk.pwc.com

PwC's Global Transaction Services practice

PwC's Transaction Services practice offers a full range of tax, financial, business assurance, and advisory capabilities covering acquisitions, disposals, private equity, strategic M&A advice, advice on listed company transactions, financing, and public-private partnerships.

Global Transaction Services Leader
Colin McKay—+1.646.471.5200
colin.mckay@us.pwc.com

US Transaction Services Leader
John McCaffrey—+1.415.498.6150
john.p.mccaffrey@us.pwc.com

Europe Transaction Services Leader
Phillippe Degonzague—+33.01.5657.1293
phillippe.degonzague@fr.pwc.com

Asia-Pacific Transaction Services Leader
Chao Choon Ong—+65.6236.3018
chao.choon.ong@sg.pwc.com

US Transaction Services, Assurance
Brian Vickrey—+1.312.298.2930
brian.vickrey@us.pwc.com

US Transaction Services, Tax
Michael Kliegman—+1.646.471.8213
michael.kliegman@us.pwc.com

US Transaction Services, Merger Integration
David Limberg—+1.216.875.3506
david.limberg@us.pwc.com

PwC's Global Capital Project and Infrastructure practice

PwC's Capital Project & Infrastructure (CP&I) practice focuses on transactions and the building of assets that span both the public and private spaces, with experience in the planning, analysis, execution, and governance and reporting of large capital programs, public-private partnership experience on both the public and commercial side, regulatory expertise, fund structuring, and deal expertise in synergistic areas such as tax, sustainability, fraud and corruption, utilities, energy, healthcare, and government.

Global and US Capital Projects and Infrastructure Leader

Carter Pate—+1.703.918.1111

carter.pate@us.pwc.com

US Capital Projects and Infrastructure Partner

Kristen Vieira Traynor—+1.267.330.2530

kristen.vieira.traynor@us.pwc.com

US Capital Projects and Infrastructure Transactions Partner

Michael McHale—+1.646.471.2628

michael.w.mchale@us.pwc.com

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, 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; air and water resource and solid waste management.

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 September 30, 2010 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 Northern America and Latin 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 “deals,” when referenced herein, refers to deals with a disclosed value of at least \$50 million unless otherwise noted.

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