

# Engineering growth

August 2014

## Second-quarter 2014 global engineering and construction industry mergers and acquisitions analysis



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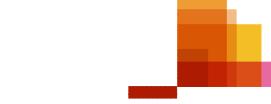
Welcome to *Engineering growth*, our quarterly analysis of mergers and acquisitions (M&A) in the engineering and construction (E&C) sector. We are pleased to present our second-quarter 2014 analysis as part of our ongoing commitment to providing you with a deeper understanding of related trends and prospects in the industry.

During the second quarter of 2014, the value of M&A deals in the E&C sector in 2Q14 surged to \$67 billion from \$15 billion in the prior quarter, as the number of transactions increased by 18%. The gain was attributable to two of the largest transactions ever announced in the sector. As a result of these mega-deals, or transactions with disclosed value above \$1 billion, the average deal size rose to among the highest levels on record.

Economic activity during 2Q14 was mixed in the U.S. as spending in the power, office and lodging segments led to near double digit growth in private non-residential construction. Public spending remained anemic with a heavy level of legislative uncertainty hanging over infrastructure spending due to the near depletion of the Highway Trust Fund. The multi-family housing market has improved but potential entry level single home buyers still struggle with job insecurity and elevated debt levels. Globally, strong manufacturing survey results in China have alleviated some near term fears but structural concerns about property and debt bubble persist.

Against this backdrop, a number of trends have persisted in the E&C sector. Following are additional highlights based on our analysis:

- Consolidation among building materials companies continued as the prolonged global construction slump prompted cement and concrete suppliers to act. The massive, \$29 billion merger in Europe between Holcim and Lafarge, and related disposition of assets, drove much of the deal flow in the quarter. In fact 8 of the 39 transactions in the quarter valued at \$50 million or above involved the cement business (with 3 directly involving Lafarge). The newly combined company will remain very sensitive to global economic conditions but will benefit from geographic diversity. More importantly, consolidating operations will allow the new entity to control capacity, improve utilization rates, cut down costs and dictate prices to suppliers.
- The second quarter included a flurry of activity involving the assets of French industrial conglomerate, Alstom. The \$17 billion acquisition of Alstom's energy unit, including its gas turbine business, will give General Electric wider access to power plants in emerging Asia and Africa. The interest in Alstom highlights the interest in high quality assets, particularly those with exposure to long term "megatrends" such as shifting of economic power to emerging regions and opportunity for growth from development and urbanization in those markets.



- Meanwhile, engineering service and construction companies continue to align with faster, stable growing segments such as oil, gas & petrochemicals. For example, in July, Aecom Technology announced the \$4 billion acquisition of engineering and construction management company URS Corp. The transaction will allow Aecom to offer a broader range of capabilities in markets like oil and gas including services such as pipeline repair. Montreal based, SNC-Lavalin Group increased its global oil and gas industry exposure with its \$2 billion acquisition of Kentz Corp. Kentz is a geographically diversified global operator whose clients include major oil companies such as Exxon Mobil, Chevron and Shell. The company has expertise in the growing shale gas and liquefied natural gas markets.
- Outside of oil, gas and power some degree of risk aversion on the part of acquirers has impeded deal flow. Managers are being selective, taking a long term view on human capital and technical needs while focusing on core competitive advantages. Divestitures of non-core businesses are a recurring theme since they free up capital and can favorably impact both financials and operations. Leveraged buy-out activity remained strong and there were a significant number of privately negotiated deals during the quarter.
- Going forward, we expect transaction activity to remain robust as E&C firms strive for full line of service integration and broad, diversified geographic reach. Consolidation in the building materials segment will likely continue since overcapacity continues to plague the segment. Companies will carefully monitor the potential success of Holcim-Lafarge in managing costs and capacity. Finally, companies in the home building segment continue to reassess their holdings as they digest recent home price levels and optimize the geographic and demographic mix their portfolios.

For a deeper dive into the data, launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/engineering-growth.jhtml>, or contact us to further discuss our insights.

Sincerely,



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