



Engineering growth

Fourth-quarter 2013 engineering and construction industry mergers and acquisitions analysis

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To our engineering and construction readers



H. Kent Goetjen

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Jonathan Hook

A handwritten signature in black ink, appearing to read "Jonathan".

To help provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you our quarterly analysis of M&A activity in the global engineering and construction (E&C) industry. In this edition of *Engineering growth*, you'll find an overview of deal activity during the fourth quarter of 2013 as well as our expectations for the E&C industry in the near future.

With a total value of \$46.4 billion for transactions greater than \$50 million, only slightly above 2009 levels, deal volume in 2013 trended downward for the third straight year. Transactions of this size rebounded in the fourth quarter after a particularly weak third quarter, but they remained 25% below 4Q12 activity. These figures exclude the \$3.3 billion acquisition of Foster Wheeler by UK-based AMEC, which was rumored throughout 4Q13 and officially announced in January 2014. The purchase of the Swiss conglomerate, which has significant upstream oil and gas, liquefied natural gas, gas-to-liquids, petrochemicals, and power exposure in a wide range of geographies, is the largest single transaction in the sector since a \$4.5 billion strategic investment in Hyundai Engineering & Construction in early 2011.

Economic uncertainty in developed markets continues to hinder E&C industry growth as well as transaction activity, both of which closely tie into the global economy. Oil and gas and petrochemicals segments, however, are growing, and there are expectations for more aggressive expansion of assets in strategic regions.

Other positive developments include stabilization, if not improvement, in employment markets; broad recovery in US housing prices; impressive US housing starts; and improving Purchasing Managers Index (PMI) survey numbers in the Eurozone in recent months.

PwC analysts are monitoring several additional trends expected to affect the values of deals in engineering and construction:

- Emerging markets continued to be the main drivers of global growth, but potential acquirers were more cautious as they reassessed the magnitude of the deceleration in Asia. The majority of transactions in the E&C sector were local deals, particularly within Asia, where consolidation is driven by scale and efficiency; only two of 26 Chinese transactions were cross-border. Selectivity regarding cross-border deals is expected to continue in the near term as new baseline growth rates are established in target markets.

- Transactions in the construction materials category led early in the year, continuing the 2012 trend of consolidation of the cement and concrete sectors. However, home building and construction, the usual category leader, increased in the second half of 2013, with a significant mega-deal (\$1 billion or more) in each sub-sector. Expectations for growth remain highest among companies with oil and gas as well as chemical exposure.
- Acceleration of activity is expected among home builders following the Toll Brothers acquisition of California-based Shapell Industries. Strong housing price recovery in select regions and relative stabilization of unemployment rates have improved visibility regarding the growth outlook, increasing the likelihood for acquisitions. Smaller, niche market developers are comfortably off industry lows and, therefore, it's an opportune time to consider exit strategies. Larger, geographically diverse builders can use selective acquisitions to reposition their portfolios' geographic and demographic exposures.

We remain cautiously optimistic for the future. As the construction sector continues its recovery and construction companies reevaluate growth opportunities in markets and segments farther from home, the pace of deal making is likely to accelerate.

The increasing complexity of projects; rising use of design-build contracts and need for technical specialization, including PPP (public-private partnerships) experience; and need for relationships in key growth regions are the main factors that will drive activity even amid a tepid global economic environment.

We're pleased to present our fourth-quarter 2013 analysis as part of our ongoing commitment to providing you with a deeper understanding of M&A trends and prospects in the industry.

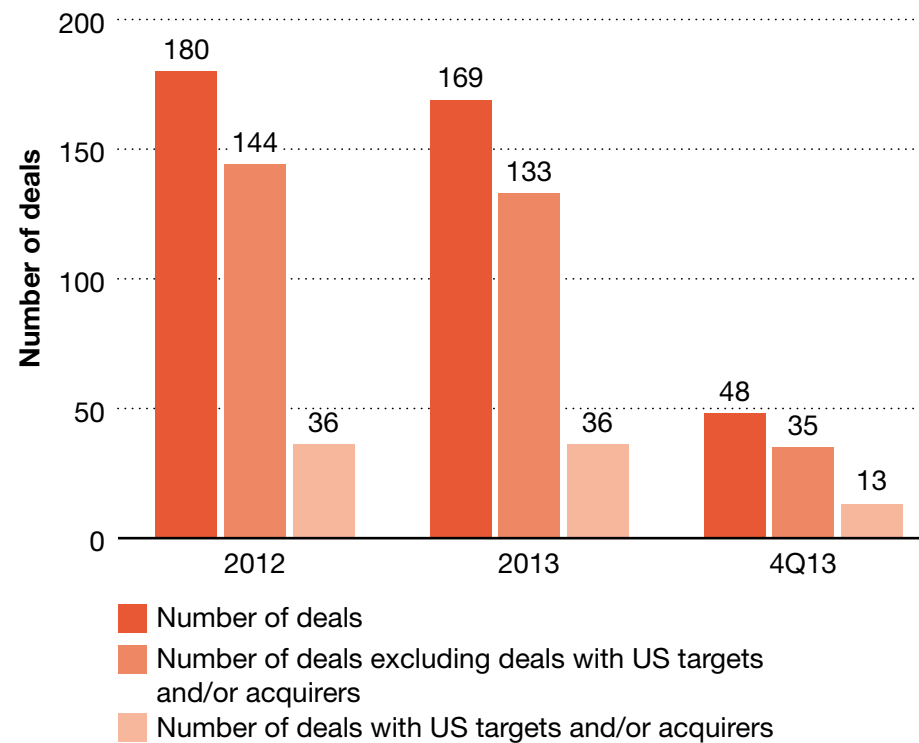
For a deeper dive into the data, launch the data explorer at <http://www.pwc.com/us/en/industrialproducts/publications/engineering-growth.jhtml> or contact us to further discuss our insights.

Deal activity

US and overseas deal activity by number and value of transactions

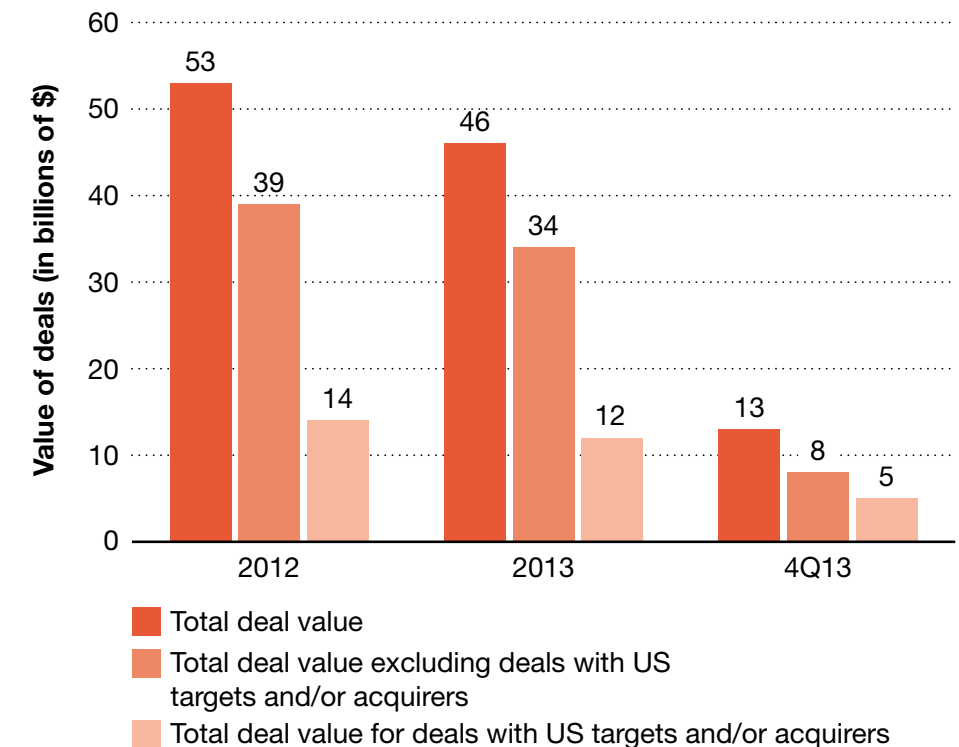
Deal activity by number of deals

Measured by number of deals worth \$50 million or more (2012, 2013, 4Q13)



Deal activity by value of deals

Measured by value of deals worth \$50 million or more (2012, 2013, 4Q13)

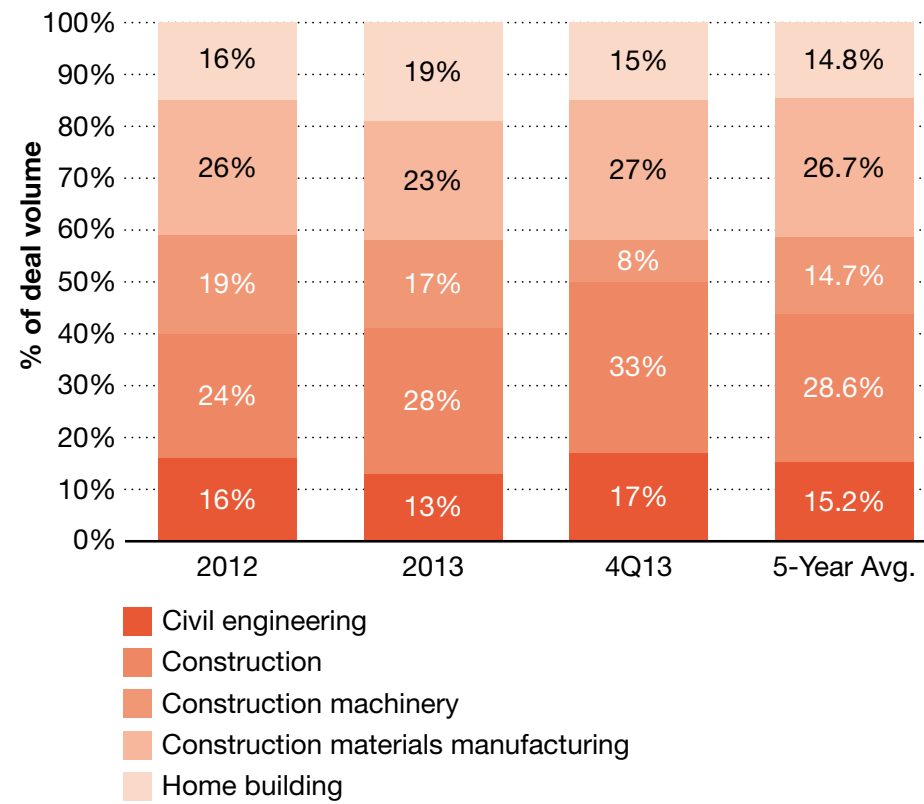


Engineering and construction transaction volume for deals above \$50 million was 25% lower than 4Q12, but deal value improved for the second consecutive quarter. Full year deal value for 2013 was 12% lower than the prior year and represented a third consecutive year of decline.

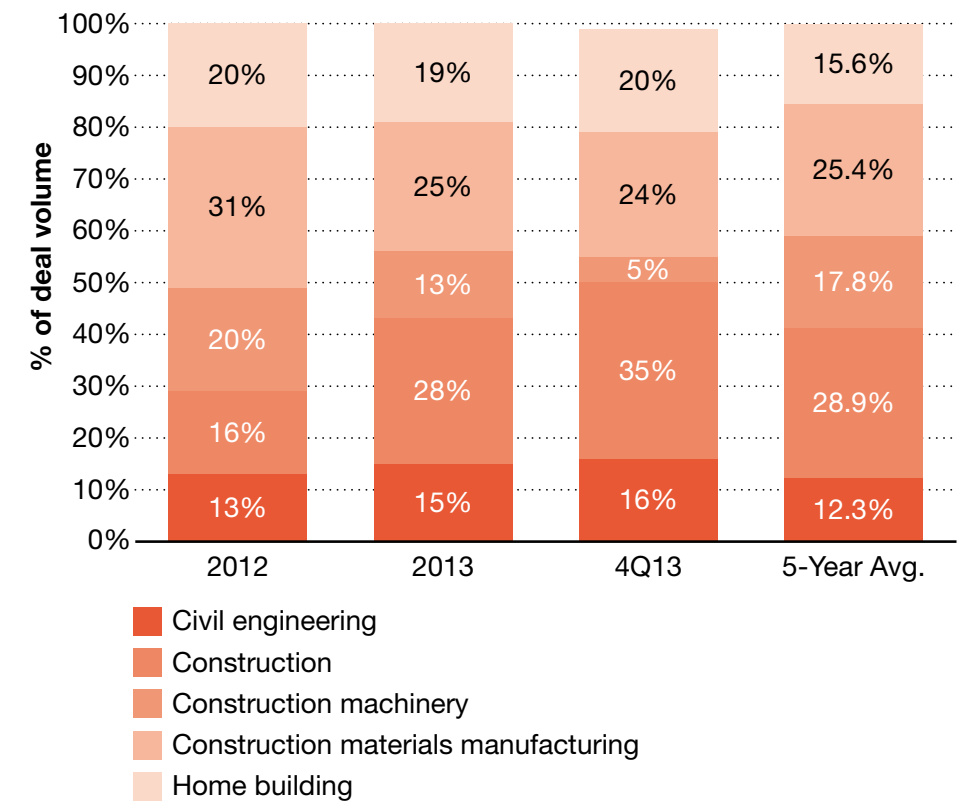
Despite the reduced overall level of activity, there were some positive signs. Deals were steady in size in 2013 and more diversified across industries than the prior year, which was dominated by a few concentrated mega-deals in the construction materials segment. The mega-deals in the second half of 2013 in home building and (petrochemical-related) engineering are likely an indicator of things to come.

Deals by target E&C category, with distribution by number and value of transactions

Deal composition by percent of announced deals
(2012, 2013, 4Q13)



Deal composition by percent of announced deal value
(2012, 2013, 4Q13)



Large deals

Mega-deals in 2013 (value of \$1 billion or more)

Mega-deals in 2013 (value of \$1 billion or more)

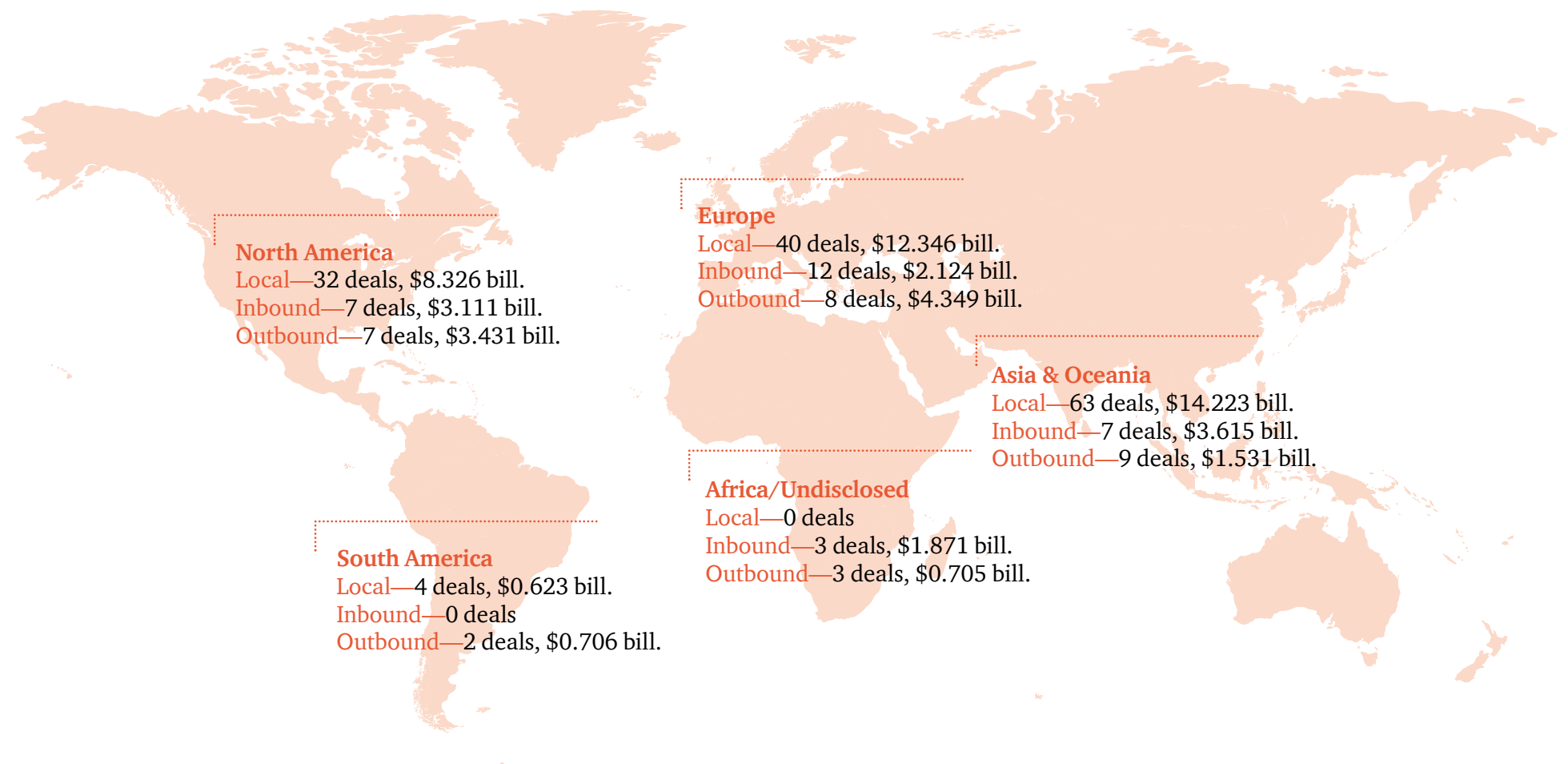
Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bills	Category
Jan	Orascom Construction Industries SAE	Egypt	Orascom Construction Industries SAE	Netherlands	Completed	1.71	Construction materials manufacturing
Jan	Verallia North America	United States	Ardagh Group SA	Luxembourg	Pending	1.70	Construction materials manufacturing
Nov	Shapell Industries Inc	United States	Toll Brothers Inc	United States	Pending	1.60	Home building
Mar	Shanxi Fenxi Taoyue Coal Industry Co Ltd	China	Shanxi Meigui Energy Co Ltd	China	Pending	1.41	Construction
Feb	Impregilo SpA	Italy	Salini Simonpietro & C Sapa	Italy	Completed	1.35	Construction
Sep	Sinclair Knight Merz Pty Ltd	Australia	Jacobs Engineering Group Inc	United States	Completed	1.20	Civil engineering
Dec	Cie Financiere & Industrielle des Autoroutes SA	France	Vinci SA	France	Pending	1.09	Construction
Aug	Kentz Corp Ltd	United Kingdom	AMEC PLC	United Kingdom	Withdrawn	1.08	Civil engineering

In 4Q13, Toll Brothers announced the \$1.6 billion acquisition of the single-family residential property business of Shapell Industries, a home builder and developer based in Northern and Southern California. The recovery in housing prices and pickup in housing construction should lead to strategic investments among home builders seeking desirable demographic segments and a chance to revisit and rebalance the geographic exposure of their portfolios.

The year's other notable transaction from earlier in 2H13 was the agreement by Jacobs Engineering Group to purchase Australia-based Sinclair Knight Merz, an employee-owned provider of engineering services. This cash deal, valued at \$1.2 billion, is expected to increase Jacobs Engineering's position in the lucrative oil and gas and chemicals sectors.

Deal market characteristics

*Global E&C M&A activity
in breakdown of
transaction totals by
region of acquirer
and location of target*



On a regional basis, leading deal volume was in Asia and Oceania, where investors were involved with 79 deals valued at almost \$20 billion in the fourth quarter. China was the key driver of deal volume and value in the region, accounting for 26 deals, only two of which were cross-border deals. In fact, in all regions cross-border volume dropped as a share of total activity, accounting for 27% of deals in 4Q13 versus more than 40% in the prior quarter.

Risk aversion on the part of acquirers has impeded deal flow, and this will likely continue in the near term. We do expect to see cross-border activity pick up in the long term as developed markets remain stagnant and emerging markets, despite lowered expectations, remain vital for growth among mature market E&C companies.

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 (white ware) 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 January 1, 2011, and December 31, 2013, 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 the deal has not been completed), or withdrawn.

Regional categories used in this report approximate United Nations 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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