

Engineering growth

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First-quarter 2014 global engineering and construction industry mergers and acquisitions analysis



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PwC is pleased to share with you our quarterly analysis of mergers and acquisitions (M&A) activity in the engineering and construction (E&C) sector. *Engineering growth* offers insights on deals in the sector during the first quarter of 2014, as well as our expectations for M&A in the coming year.

Mergers and transactions in the first quarter were robust, in terms of deal value, as four mega deals (transactions with disclosed value above \$1 billion) were announced during the quarter. However, the number of transactions decreased significantly compared with the previous three quarters. Consequently, average deal size was among the highest in five years.

The economy remains uncertain, and month-to-month growth has been inconsistent and affected by extreme weather in some regions. Also, GDP growth rates in emerging markets have decreased, relative to rates in the developed world. The recovery is expected to accelerate as we move toward the second half of 2014, following a period of extremely low rates in Europe. Construction growth in the United States has stalled in the mid-single digits, as residential and private sector spending has driven incremental growth.

Against this backdrop, companies are seeking to align with faster-growing segments such as oil, gas, and petrochemicals. Strategic and financial investors have been active across a number of industries, ranging from energy-related engineering services to pumps and valves that improve shale gas drilling yields. Within E&C, this trend drove the \$3.3 billion acquisition of Foster Wheeler by UK-based AMEC, as well as a handful of other transactions, including acquisitions by GE Oil & Gas and China Petrochemical.

Consolidation among construction materials companies continued as the prolonged global building materials slump affected the cement and concrete segment: Martin Marietta purchased Texas Industries, and there is talk of a large-scale merger in Europe between European-based Holcim and Lafarge.

Risk aversion on the part of acquirers has slowed deal flow, particularly in emerging markets. The share of deal activity in emerging markets dropped in the first quarter amid concerns over the rate of economic deceleration in China. In Asia, there was a slight increase in the number of local, as opposed to cross-border, deals.

Divestitures of non-core businesses continue, as they can favorably affect financials and operations. Share buybacks and dividend payouts have become a priority use of cash, since investors often favor yield and prudent capital use over aggressive M&A in a slow-growth setting. Debt reductions and restructurings were also a larger share of activity than usual.

Going forward, the full-service integration among engineering and construction firms and the increasing popularity of mega projects are likely to have a profound impact on the



sector. Multinational clients of E&C companies are “rationalizing” their vendors, seeking full-service providers with large geographic footprints and the ability to execute on all phases of increasingly large projects.

These trends are a mixed blessing for the sector, as they create significant revenue opportunities and likelihood of M&A but also significantly increase complexity and uncertainty. Despite this uncertainty, we expect transaction activity to remain robust as E&C firms work to achieve full line of service integration and broad geographic reach.

We’re pleased to present our first-quarter 2014 analysis as part of our ongoing commitment to providing you with a deeper understanding of M&A trends and prospects in the industry.

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

Sincerely,



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