Engineering growth

April 2016

First-quarter 2016 global engineering and construction industry mergers and acquisitions analysis

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Welcome to *Engineering growth*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the engineering and construction (E&C) sector. We are pleased to present our first-quarter 2016 summary as part of our ongoing commitment to providing you with a deeper understanding of related trends and prospects in the industry.

Overview

Deal activity improved in the E&C sector in 1Q16, as volume and value increased year-over-year for the first quarter. Sequentially, the annual deal activity grew in terms of volume; however, it decreased in terms of total value, driven by a substantial decline of 43 percent in megadeal value compared to the previous period. Average deal value also decreased, declining by almost one-third to $349.7 million.

Megadeals *(deals valued at $1 billion or more)*

First-quarter 2016 saw a decline in megadeal activity, with four deals totaling $10.1 billion. However, the value of these deals was almost 47 percent of total deal value for the quarter. The largest deal was the January 2016 announcement by China-based Zoomlion that it intended to launch an unsolicited tender offer to acquire the entire share capital of Terex, a US- based manufacturer and wholesaler of construction equipment, for $3.4 billion.

Cross-border vs. local deal activity

Local deal activity was a key driver for many of the 1Q16 deals, particularly in the emerging and developing markets. Local deals increased in terms of both volume and value on a sequential basis. This increase is not surprising, given that the majority of developing and emerging region-based E&C firms are smaller and the industry remains fragmented; thus local deals can help them grow at a lower cost. Consolidation also allows local firms to increase market share and achieve economies of scale. For example, in the construction materials segment, there have been a number of announcements as companies look to buy stakes in rival companies, including the recent announcement by India-based UltraTech Cement that it plans to purchase six cement units from Jaiprakash Associates for $2.4 billion.

Segmentation activity

On a segment basis, first-quarter 2016 activity was driven by the construction and construction materials manufacturing industries, which jointly accounted for more than 60 percent of the overall deal volume. A significant increase in construction deals drove 38 percent of the first quarter's volume, compared to 31 percent in the fourth quarter of 2015. Of the four megadeals in the first quarter, the largest (Terex) was a construction machinery transaction. There were also two construction materials manufacturing related megadeals announced and one in the homebuilding segment.

Regional activity

Asia and Oceania continued to be the largest acquirer region, accounting for more than 50 percent of all deals announced in 1Q16. This strong level of activity was driven in part by activity in China, where 14 of the 34 deals in the region were based (12 of these were local). This China-based activity is driven in part by that nation's endeavour to improve its infrastructure, combined with its constituent companies' aim to achieve efficiencies in scale, increase geographic reach, and improve service- and product-mix.

Outlook

Looking forward into the balance of 2016, several indicators lead us to believe that the deal environment will continue to improve. Equity markets continue to advance; the S&P 500 index increased over 2 percent in the first quarter of the year, erasing significant declines in February. However, while the official rate of unemployment in the United States hovers around 5 percent, and the estimate of new jobs created in March is 215,000, concerns remain. Many of these jobs are seasonal or part-time and some analysts are stating that the "real" unemployment rate is higher, due to the number of unemployed that are no longer actively seeking a position. Still, oil prices and global economic growth concerns will likely cause companies to pause during 2016.

On a more positive note, new construction starts in the United States are expected to have grown 6 percent (to $712 billion) in 1Q16, according to Dodge Analytics. At the same time, US GDP is expected to continue growing, albeit at a slower rate than in 2015 (2 percent versus 2.4 percent, respectively). Reduced costs and margin growth remain relevant considerations, driven by low petroleum prices. These factors lead us to conclude that activity will continue to increase over the course of the year.

Launch the data explorer at pwc.com/us/engineeringgrowth for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,

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