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PwC Deals

Global Engineering and Construction M&A Deals Insights Q1 2017

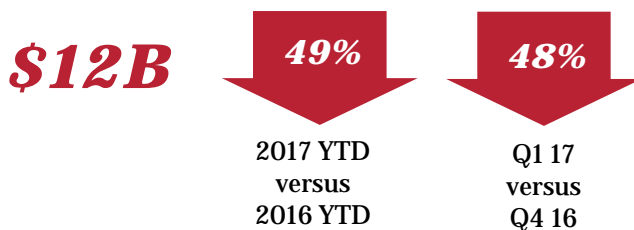
Executive summary

Global Engineering and Construction M&A activity slowed in Q1 17 towards more seasonal norms, but well off the pace of Q1 16. Q1 16 activity benefited from five megadeals (including two larger than \$4.0 billion) which was significantly higher than levels seen in Q1 15 or in the most recently completed Q1 17. In Q1 17 there were two megadeals both of which had announced values of just over \$2.0 billion. Continuing a trend of 2016, quarter-on-quarter total deal value continues to decrease versus 2015 and in Q1 17 versus 2016 as well.

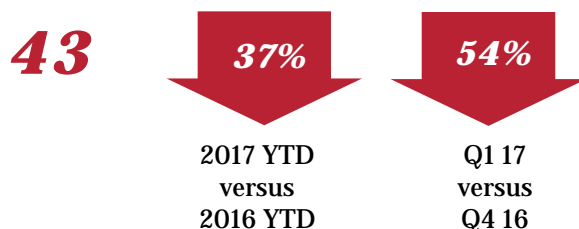
With the exception of Civil Engineering, the entire sector for both the value of M&A transactions and the overall number of deals declined compared to Q1 16 and versus Q4 16. While some of the slowdown versus Q4 16 is attributed to traditional seasonal influences, a level of uncertainty that has impacted M&A activity the last year continues to be a reality.

Further impacting M&A is the Asian markets which are heavily driven by China. On a Q1 trailing four-quarter basis, the value of transactions continues to decline (\$21 million in most recent Q1 17 trailing four quarters vs. over \$30 million for the Q1 16 trailing four-quarter period). Until there is some loosening of currency controls by the Chinese government, we expect outbound Chinese investment to be tempered heavily influencing overall M&A activity in Asia.

Value by the numbers



Volume by the numbers



“ Q1 17 M&A activity decreased to \$12 billion which is the lowest level in the last three years. While there are some seasonal influences on the first calendar year quarter in any year, the drop in Q1 17 was far more pronounced than in previous years suggesting ongoing levels of heightened market uncertainty as well as tempered demand from Asia, and specifically Chinese investment. ”

— Colin McIntyre,
US Engineering and Construction Deals Leader

Key trends/highlights

- Deal value in the E&C sector decreased from \$23.3 billion in Q4 16 to \$12 billion in Q1 17. Deal volume also dropped by more than half from the previous quarter.
- Two megadeals were announced in Q1 17 with a total aggregate disclosed value of \$4.8 billion.
- The Civil Engineering category had the largest share in terms of both value and volume – 47% and 35%, respectively.
- In Q1 2017, financial buyers deal value decreased by 43% and 38% as compared to Q4 16 and Q1 16, respectively. Strategic investors had a higher drop in deal value, decreasing by 51% and 53% during the same period.
- Asia & Oceania continued to lead the region, but only marginally in an otherwise down quarter across the globe.
- China M&A activity in Q1 17 continued a trend of declining comps versus the prior year, reflecting continued influence of currency controls in the market making completion of overseas transactions more challenging for Chinese outbound investors.



Source: Thomson Reuters and other publicly available sources



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Highlights of Q1 2017 deal activity

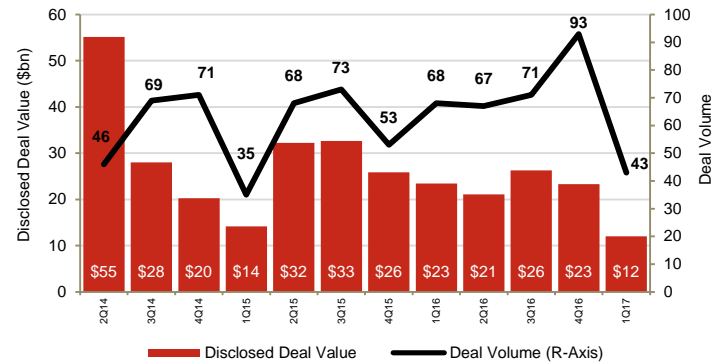
M&A activity dropped

Deal activity underperformed both on a quarterly and annual basis. Deal value almost halved in Q1 2017, decreasing by 48% and 49% compared to Q4 2016 and Q1 2016, respectively.

There were 43 deals announced this quarter, a decrease of 54% and 37% from Q4 2016 and Q1 2016, respectively. Due to lower deal volume relative to value, the average deal size increased by 12% in Q1 2017 compared to Q4 2016.

Source: Thomson Reuters and other publicly available sources

Global E&C M&A Deal Volume and Value



Largest transaction

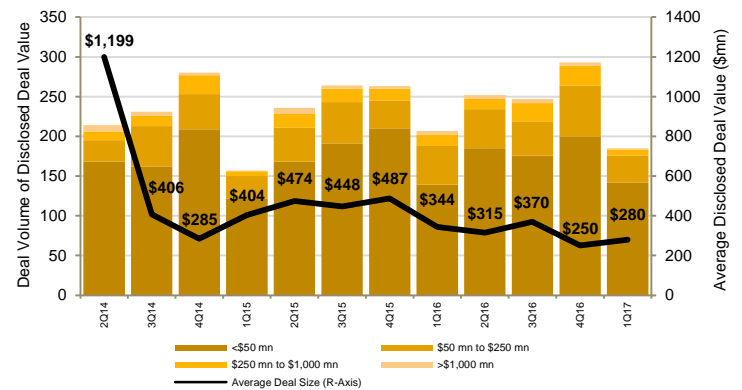
In March, John Wood Group announced the acquisition of Amec Foster Wheeler for \$2.7 billion, thereby diversifying Wood Group's client reach and extending the scale of its services. The deal accounts for 23% of the total deal value in Q1 2017.

Megadeals

There were two deals in Q1 2017 exceeding a disclosed value of \$1.0 billion, down from four in Q4 2016 and five in Q1 2016. These two transactions represented 40% of the total disclosed deal value for the quarter.

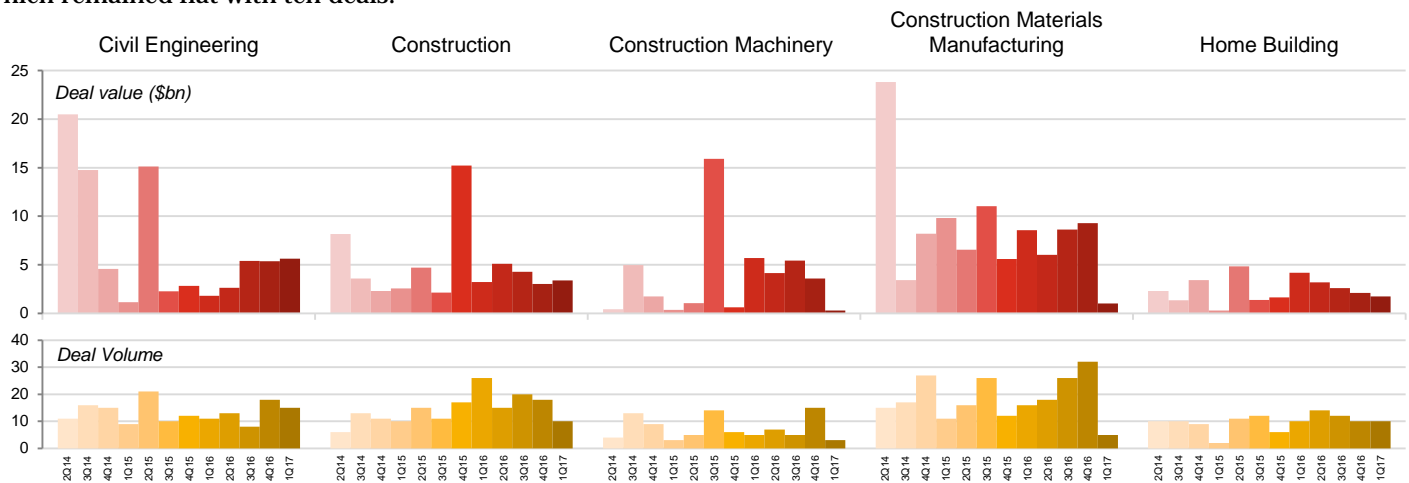
Source: Thomson Reuters and other publicly available sources

Global E&C M&A Deals by Disclosed Value



Sector category analysis

Deal value decreased across most categories, with positive growth in Civil Engineering and Construction. Construction Machinery had the highest drop in value, both quarterly and annually. Civil Engineering has been the only category to grow consistently since the past four quarters. Deal volume declined in all categories compared to Q4 2016 except Home Building, which remained flat with ten deals.



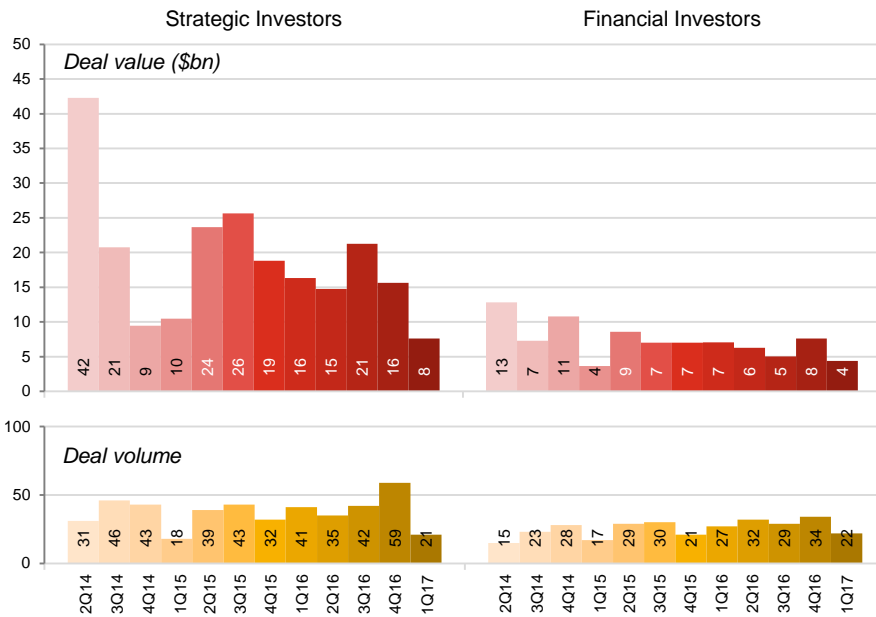
Source: Thomson Reuters and other publicly available sources



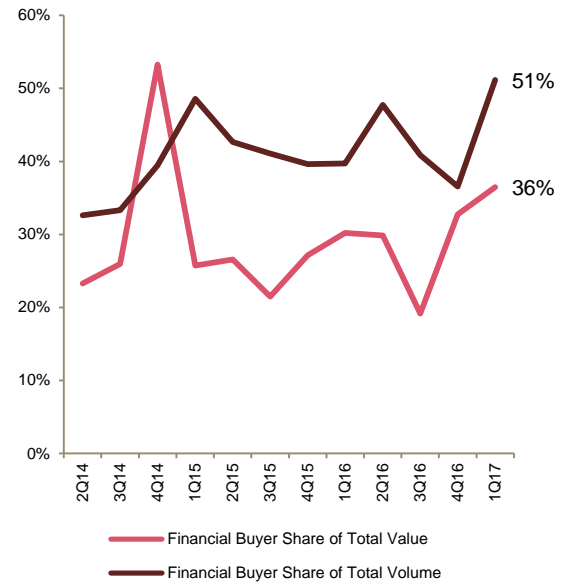
Key trends and insights

Financial vs. strategic investors

Both strategic and financial investors declined in deal value and volume in Q1 2017. In value terms, strategic investors decreased by 51% from Q4 2016, while financial investors declined by 43%. For the first time in three years, strategic investors had lesser number of deals compared to financial investors. Financial investors' contribution to total deal value and volume increased in Q1 2017 since strategic investors' activity decreased at a higher rate than financial investors.



Financial Investor Share of M&A Activity

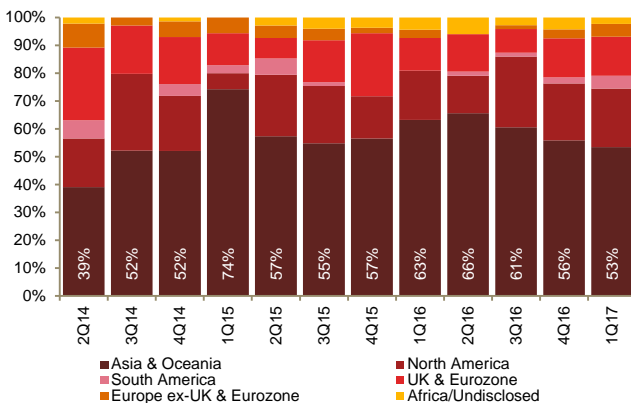


Source: Thomson Reuters and other publicly available sources

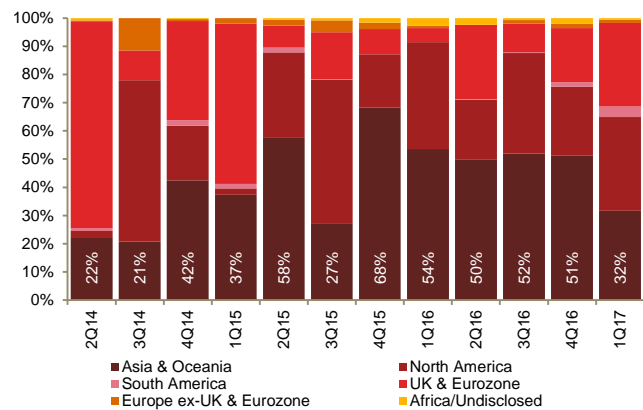
Regional analysis

Local deals (transactions by targets and acquirers within the same borders) continue to account for the majority of transactions in E&C. Local deals contributed to 78% and 70% of total deal value and volume and included both the megadeals of this quarter. These two deals occurred in North America and helped the region to capture the largest share in deal value. Although more than half the deals occurred in the Asia and Oceania region, its deal size remains low.

Share of Deal Volume by Acquirer Region



Share of Deal Value by Acquirer Region



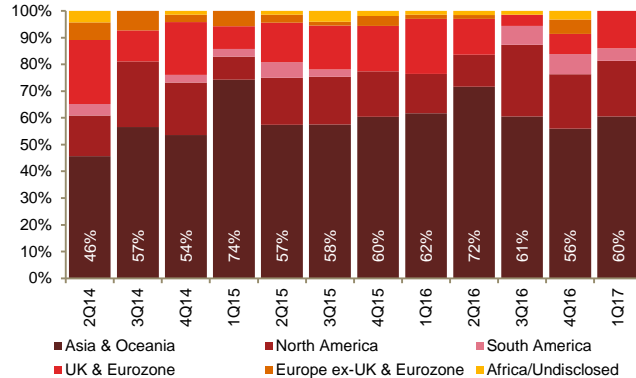
Source: Thomson Reuters and other publicly available sources



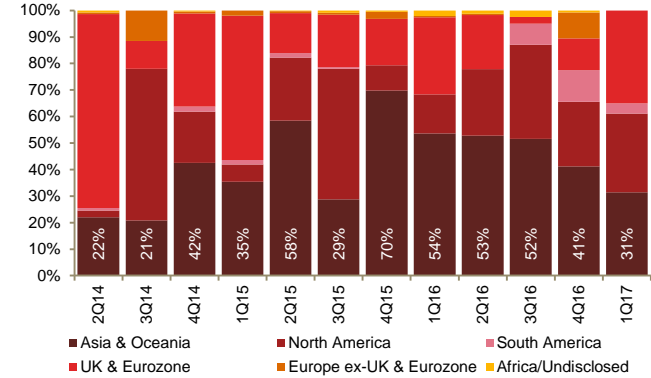
Key trends, insights, and outlook

Regional analysis (continued)

Share of Disclosed Deal Volume by Target Region

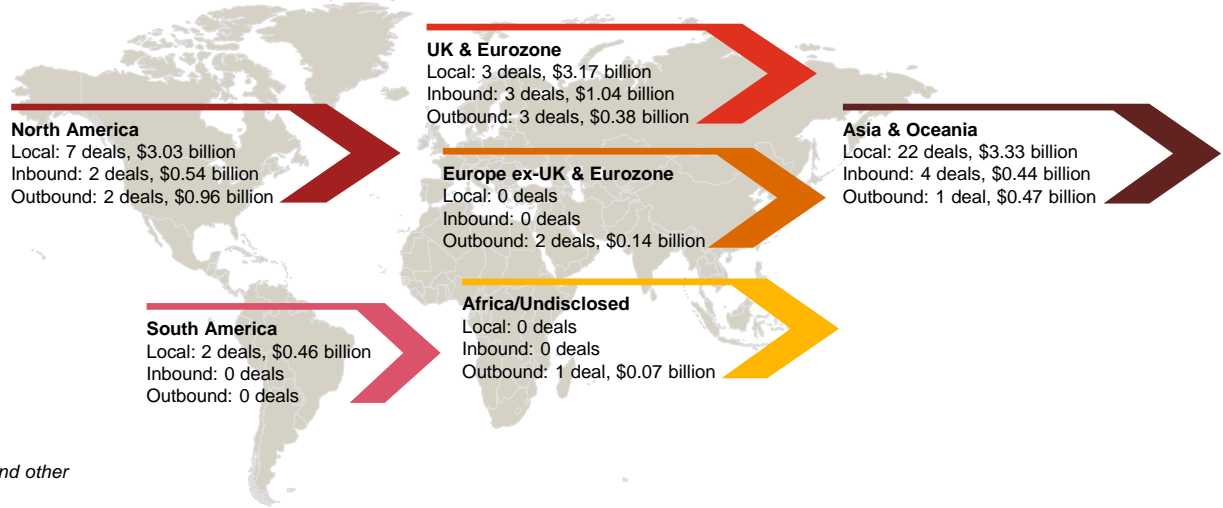


Share of Disclosed Deal Value by Target Region



Source: Thomson Reuters and other publicly available sources

Engineering and construction deals by region



Source: Thomson Reuters and other publicly available sources

Looking forward in 2017

M&A activity in Q1 17 demonstrated not only what we consider “normal” seasonal influences when compared to Q4, but ongoing levels of uncertainty based upon the overall level of activity compared to prior years.

In the North American region, which is heavily influenced by US activity, there continues to be a high degree of unknown coming out of Washington. Two key administrative agenda items dealing with corporate tax reform and a meaningful infrastructure spending bill have stalled with no clear indication of timing. We believe that both will influence the market and be a catalyst for M&A activity. While the uncertainty in Washington continues, we expect M&A activity to be steady and follow similar trends as 2016 with a heavier focus on medium sized or tuck in acquisitions as companies leverage strong balance sheets and significant dry powder.

Outside the US, in Q1 17 the UK formally triggered Article 50 making official its intent to exit the EU. While this is still very early days, discussions on both sides appear to be more aimed at maintaining some semblance of the historical strong relationship between the UK and the EU countries. It remains to be seen what impact this will have on M&A activity in the E&C space, although Q1 17 activity in Europe was the only region higher than Q1 16.

More broadly in Europe, there remains the outcome of both the German and French elections. Initial indications of a strong showing by “far right” parties and an “inward turn” seems to be quieted, but come election day, as was experienced in the US, a lot can change.

In the near term we expect to continue to see healthy activity in the small to medium sized deals as companies balance the need for growth and managing risk.



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Key trends and insights

Top 10 Engineering and Construction Deals in 2017 YTD

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value*	Category
03/13/17	Amec Foster Wheeler PLC	United Kingdom	John Wood Group PLC	United Kingdom	Pending	2,706	Civil engineering
03/31/17	Reliance Home Comfort LP	Canada	CKP (Canada) Holdings Ltd.	Canada	Pending	2,104	Construction
02/28/17	Chicago Bridge & Iron Co. NV-Capital Services Business	Netherlands	Veritas Capital Partners LP	United States	Pending	755	Civil engineering
03/31/17	TRC Cos Inc.	United States	New Mountain Partners IV LP	United States	Pending	554	Civil engineering
02/02/17	Nippon Sheet Glass Co. Ltd.	Japan	Investor Group	Japan	Completed	505	Construction materials manufacturing
02/22/17	Woodside Homes Inc.	United States	Sekisui House Ltd.	Japan	Pending	468	Home building
03/02/17	Keepmoat Ltd.-Regeneration Business	United Kingdom	ENGIE Services Holding UK Ltd.	United Kingdom	Pending	406	Home building
02/22/17	The IT Electronics Eleventh Design & Research Institute Science & Technology Engineering Co. Ltd.	China	Wuxi Taiji Industry Co. Ltd.	China	Completed	298	Civil engineering
03/10/17	Agencia Reguladora de Servicios Publicos Delegados de Transporte do Estado de Sao Paulo	Brazil	Patria Infraestrutura III-Fundo De Investimento Em Participacoes	Brazil	Completed	287	Construction
01/03/17	Bei Kong (Dalian) Investment Co. Ltd.	China	Investor Group	Hong Kong	Pending	215	Construction

Top 10 Engineering and Construction Deals in 2016

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value*	Category
02/26/16	KUKA AG	Germany	MECCA International (BVI) Ltd.	British Virgin	Completed	4,381	Construction machinery
09/10/16	China National Petroleum Corp.-Assets	China	Xinjiang Dushanzi Tianli High & New Tech Co. Ltd	China	Completed	4,146	Civil engineering
07/21/16	Joy Global Inc.	United States	Komatsu America Corp.	United States	Pending	2,778	Construction machinery
06/21/16	SolarCity Corp.	United States	Tesla Motors Inc.	United States	Completed	2,590	Construction
06/29/16	BBMG Corp.-Assets	China	Tangshan Jidong Cement Co. Ltd.	China	Pending	2,587	Construction materials manufacturing
02/28/16	Jaiprakash Associates Ltd.-Cement Units (6)	India	UltraTech Cement Ltd.	India	Pending	2,424	Construction materials manufacturing
06/21/16	DH Services Luxembourg Holding SARL	Luxembourg	Kion Group AG	Germany	Completed	2,100	Construction machinery
02/03/16	RONA Inc.	Canada	Lowe's Cos Inc.	United States	Completed	1,943	Construction materials manufacturing
11/21/16	Headwaters Inc.	United States	Boral Ltd.	Australia	Pending	1,798	Construction materials manufacturing
08/08/16	Linea Amarilla SAC	Peru	VINCI Highways SAS	France	Completed	1,651	Construction

Top 10 Engineering and Construction Deals in 2015

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value*	Category
07/27/15	Roofing Supply Group LLC	United States	Beacon Roofing Supply Inc.	United States	Completed	1,142	Construction materials manufacturing
04/11/15	Sound Environmental Resources Co. Ltd.	China	Investor Group	China	Completed	1,126	Civil engineering
06/02/15	Posco Engineering & Construction Co. Ltd.	South Korea	Public Investment Fund	Saudi Arabia	Completed	1,110	Home building
08/28/15	Jiangsu Province Metallurgical Design Inst. Co. Ltd.	China	Jincheng Paper Co. Ltd.	China	Completed	959	Civil engineering
07/31/15	Unicarriers Holdings Corp.	Japan	Investor Group	Japan	Completed	886	Construction machinery
08/17/15	Lafarge India Pvt Ltd.-Cement units (2)	India	Birla Corp Ltd.	India	Pending	768	Construction materials manufacturing
09/14/15	Lafarge SA	France	LafargeHolcim Ltd.	Switzerland	Completed	704	Construction materials manufacturing
03/30/15	Siam City Cement PCL	Thailand	Investor Group	Hong Kong	Completed	682	Construction materials manufacturing
08/28/15	Tongyang Cement & Energy Corp.	South Korea	Investor Group	South Korea	Completed	677	Construction materials manufacturing
09/17/15	Zhengzhou Sino-Crystal Diamond Co. Ltd.	China	Investor Group	China	Completed	675	Construction materials manufacturing

* In \$US millions

Source: Thomson Reuters and other publicly available sources

About PwC

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise engineering and construction companies and engineering and construction-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine engineering and construction industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

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About the data

The information presented in this report is an analysis of deals in the global engineering and construction industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have an SIC code that falls into one of the 60 engineering and construction industry groups. Certain adjustments have been made to the information to exclude transactions which are not specific to engineering and construction or incorporate relevant transactions that were omitted from the SIC industry codes.

This analysis includes all individual mergers, acquisitions, and divestitures for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between April 1, 2014 and March 31, 2017, with a deal status of completed, partially completed, pending, pending regulatory and pending completion and excludes all rumors and seeking buyers. Additionally, transactions that are spin-offs through distribution to existing shareholders are included.

Percentages and values are rounded to the nearest whole number, which may result in minor differences when summing totals.