

Deals from PwC

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Global Engineering and Construction Deals Insights Q2 2019

Executive summary

Continuing the trend observed in Q1 2019, M&A activity within sector continues to trend downward compared to prior years driven largely by volume of activity (YTD June 19 down 15% versus 2018 YTD June). While overall activity is down, Q2 2019 overall deal value climbed 17% versus Q1 2019, a historically seasonal trend observed (YTD June 19 value is down 17% versus the same YTD June period in 2018). Similar themes observed over the last six months continue to weigh on M&A within the sector. Ongoing geopolitical tensions and concerns about the economic outlook are overshadowing otherwise positive macro factors for the sector which create opportunities for growth and historically have driven M&A (i.e., infrastructure needs). Absent significant movement toward resolving some of the more significant events contributing to the geopolitical tensions, we are likely to see a continued drag on M&A activity compared to historical periods.



“Q2 2019 M&A activity increased compared to Q1 2019, but continues to lag historical periods reflecting the ongoing impact of geopolitical tensions and overshadow macro factors otherwise positive for the sector.”

— Colin McIntyre, US Engineering and Construction Deals Leader

Q2 2019	YTD 2019 versus YTD 2018	Q2 2019 versus Q1 2019
Total deal value \$20 billion	17%	17%
Total deal volume 536	15%	8%
Average deal size \$102.4 million	3%	22%

Trends and highlights

- In Q2 2019, deal value was ~\$20 billion, an increase of 17% over Q1 2019 and a decline of the same percentage in YTD 2019 over YTD 2018. The deal volume in Q2 2019, declined by 8% over Q1 2019 and by 15% in YTD 2019 over YTD 2018.
- Average deal size in Q2 2019 increased by 22% to \$102.4 million, when compared to Q1 2019 but declined slightly by 3% for YTD 2019 when compared with YTD 2018.
- In terms of both deal value and volume, Asia and Oceania was the most active acquirer and the most targeted region in Q2 2019. The region contributed 57% and 58% in deal value as the acquirer and target region, respectively.

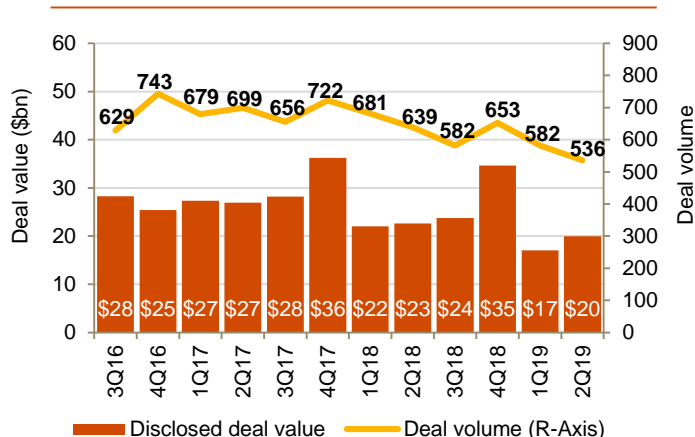
*Average deal size is calculated by dividing the total disclosed deal value with the total number of deals with disclosed deal values.

Highlights of Q2 2019 and year-to-date deal activity

Deal value and volume overview

In Q2 2019, the total deal value amounted to ~\$20 billion. The deal value increased by 17% when compared with the previous quarter. For YTD 2019, deal value was down by 17% when compared with YTD 2018. The deal volume was the lowest in the current quarter when compared with the last 11 quarters. Total deal volume declined by 8% to 536 deals in Q2 2019 vis-à-vis Q1 2019. Volume also declined in YTD 2019 by 15% over YTD 2018.

Total deal value (in \$ billion) and volume



Largest transaction

San Miguel Corp. (SMC) buying-out a controlling stake in Holcim Philippines Inc. (HPI) was the largest deal for Q2 2019. Under the transaction, SMC bought the shares of Dutch company Holderfin B.V., Union Cement Holdings Corp., and Cemco Holdings Inc., which makes up 85.73% of the total shares worth \$2.1 billion.

Megadeals*

The 100% acquisition of Beijing-based Easyhome Home New Retailing Chain Group by Wuhan Zhongnan Commercial Group for \$5.7 billion was the megadeal in YTD 2019. After this deal, Wuhan Zhongnan will become the Chinese-listed firm's controlling shareholder, with Alibaba and 22 other investors also owning stakes. There was no megadeal in Q2 2019.

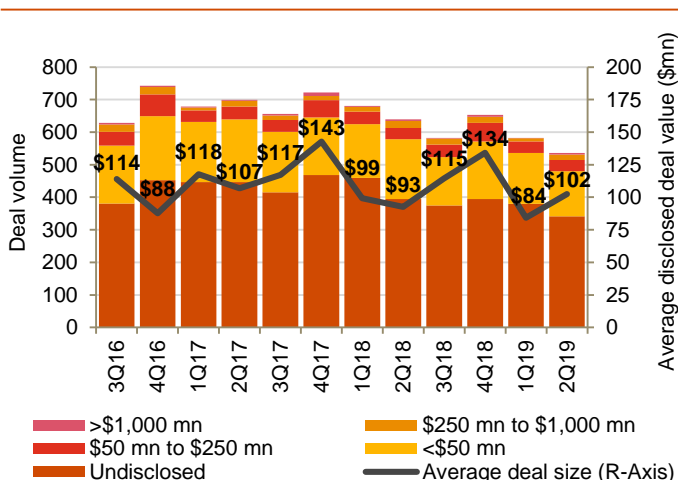
\$5.7 billion



1 megadeal



Deals by disclosed value



Deals by disclosed value and average deal size

The average deal size increased by 22% to \$102.4 million in Q2 2019 when compared with Q1 2019. It observed a slight decrease of 3% in YTD 2019 when compared to YTD 2018. The average deal size in Q2 2019 was buoyed by four of the top seven deals amounting to ~\$13.5 billion.

Source: Thomson Reuters and other publicly available sources.

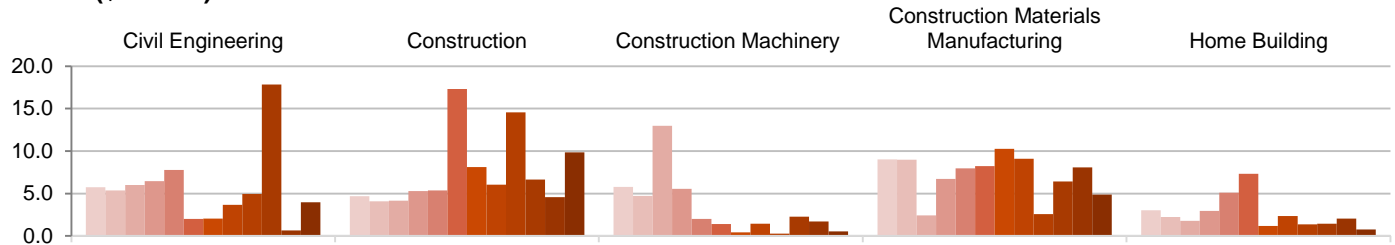
*Megadeals defined as deals with disclosed value equal to or greater than \$5 billion.

Highlights of Q2 2019 and year-to-date deal activity, continued

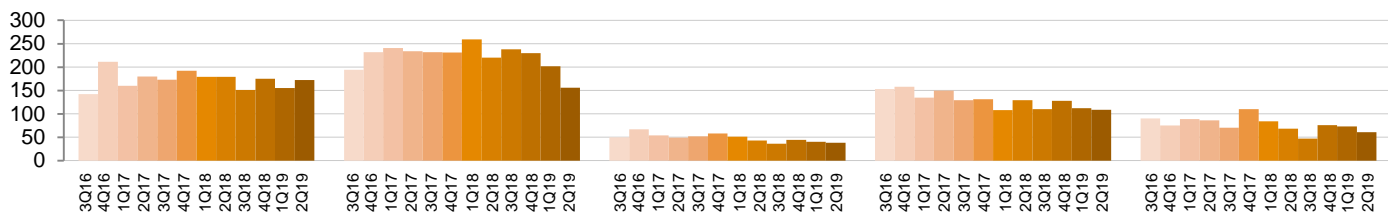
Sub-sector analysis

In Q2 2019, the Construction category led the deal value with 49% share. It was followed by the Construction Material Manufacturing category with 24% share. Construction category witnessed a 2.2x growth in the deal value in Q2 2019 vis-à-vis Q1 2019. This was driven by four of the top six deals, which summed up to ~\$5.6 billion. In terms of deal volume, the Civil Engineering category led the pack by 32% share, followed by Construction category with 29% share in Q2 2019.

Deal value (\$ billion)



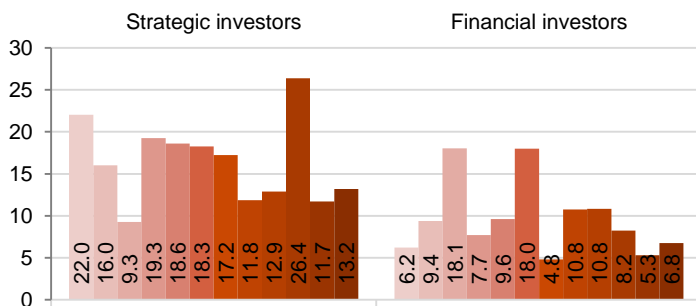
Deal volume



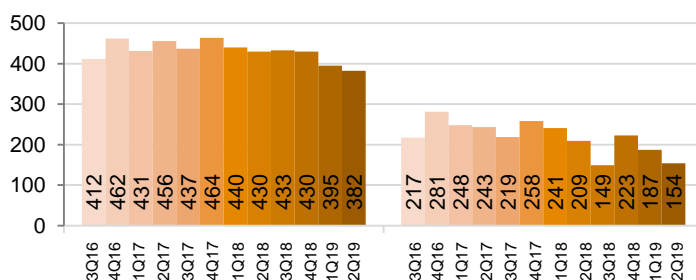
Financial vs. strategic investors

Strategic investors remained dominant in Q2 2019 and accounted for 66% share in deal value and 71% share in deal volume. When compared to Q1 2019, strategic investor's deal value increased by 13% but deal volume declined slightly by 3% in Q2 2019. Financial investors witnessed an increase of 27% in deal value and a decline of 18% in deal volume in the same period.

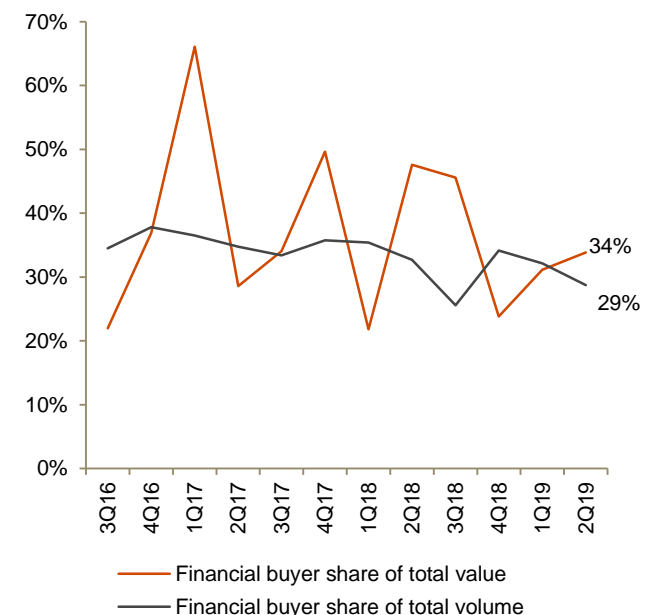
Deal value (\$ billion)



Deal volume



Financial investor share of M&A activity

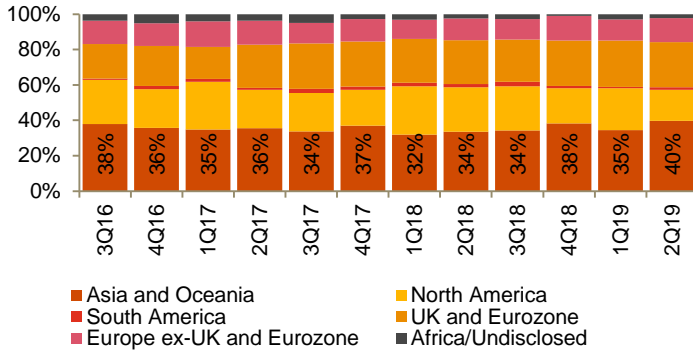


Regional deal trends in Q2 2019

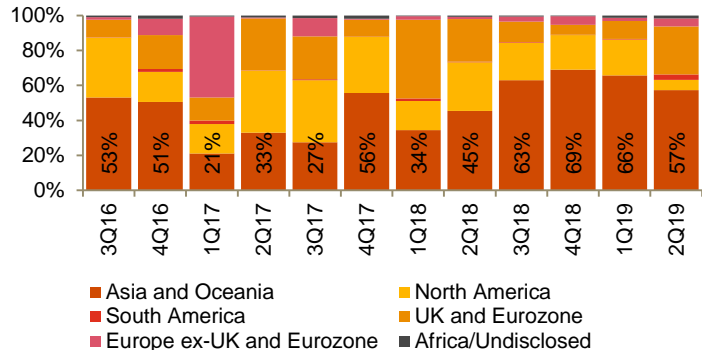
Regional analysis

Asia and Oceania remained the most active acquirer with 57% of deal value and 40% of deal volume in Q2 2019. It was followed by UK and Eurozone with 28% and 25% share in deal value and volume, respectively. An identical pattern can be observed in the target region where in Q2 2019, Asia and Oceania led the target region with a 58% and 40% share in deal value and volume, respectively. UK and Eurozone followed with 28% of deal value and 25% of deal volume in Q2 2019.

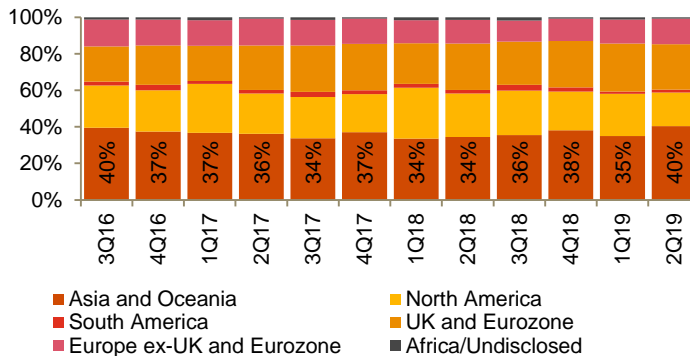
Share of deal volume by acquirer region



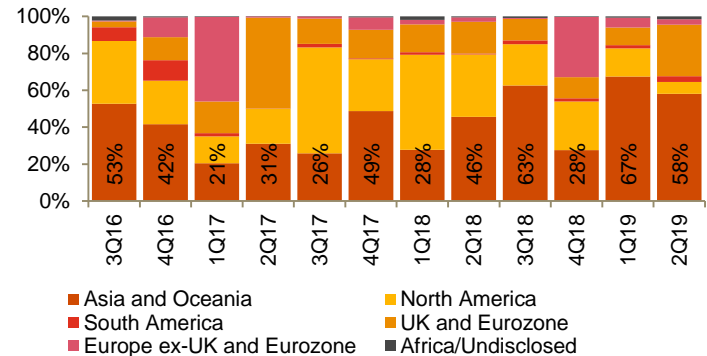
Share of deal value by acquirer region



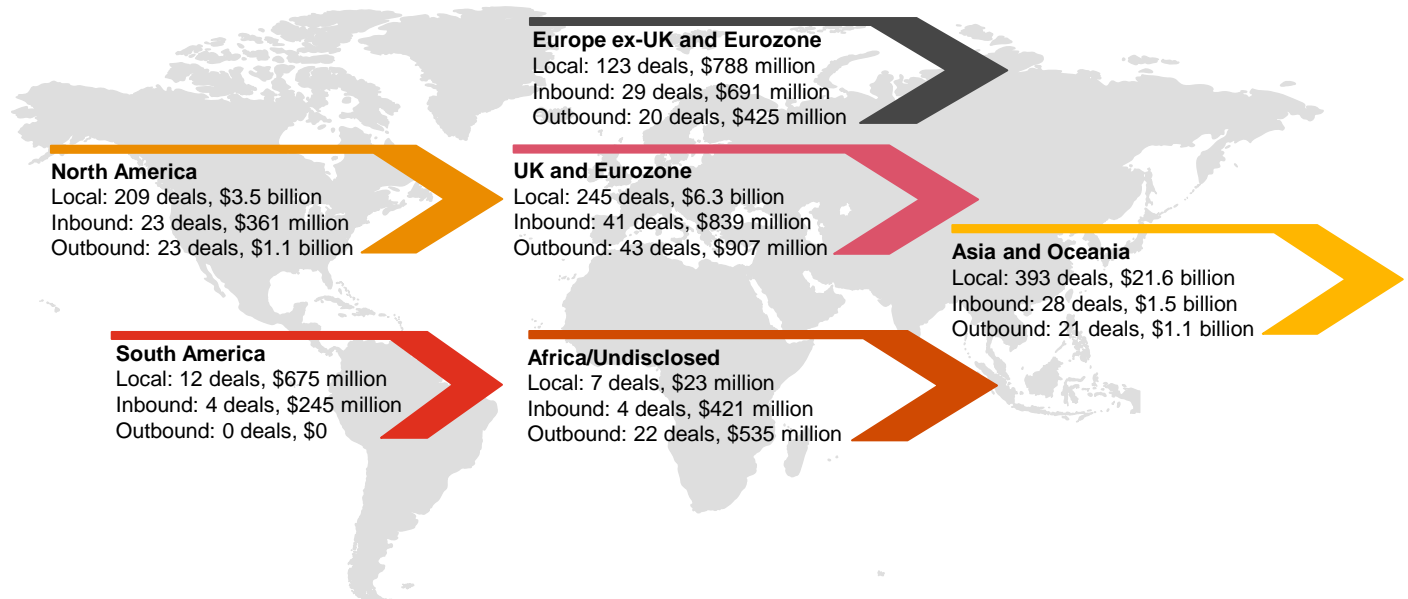
Share of deal volume by target region



Share of deal value by target region



E&C deals by region (YTD 2019)*



*Deal values above include those with disclosed value only. Deal volume with no values ("0") implies that the transaction values of those deals were not disclosed.

E&C top deals Q2 2019 and outlook

Key announced transactions (YTD 2019)

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value*	Category
01/10/19	Beijing Easyhome Home New Retailing Chain Group Co. Ltd.	China	Wuhan Zhongnan Commercial Group Co. Ltd.	China	Pending	5,709	Construction Materials Manufacturing
05/09/19	Holcim Philippines Inc.	Philippines	San Miguel Corp.	Philippines	Pending	2,150	Construction Materials Manufacturing
05/30/19	Eaton Towers Holding Ltd.	United Kingdom	ATC Heston BV	Netherlands	Pending	1,850	Construction
04/01/19	Zhejiang Construction Investment Group Co. Ltd.	China	Dohia Group Co. Ltd.	China	Pending	1,368	Construction
06/13/19	Societa Iniziative Autostradali & Servizi SpA	Italy	ASTM SpA	Italy	Pending	1,221	Construction
06/20/19	Daewoo Engineering & Construction Co. Ltd.	South Korea	KDB Investment Co. Ltd.	South Korea	Pending	1,162	Construction
03/11/19	Goodnight Midstream LLC	United States	TPG Capital LP	United States	Pending	930	Construction
03/08/19	Hong Kong International Construction Investment Management Group Co. Ltd.	Hong Kong	Times Holdings II Ltd.	United States	Completed	895	Home Building
06/18/19	CCCC Dredging (Group) Co. Ltd.	China	China Communications Construction Group Ltd.	China	Pending	722	Construction
02/15/19	The Charles Machine Works Inc.	United States	The Toro Co.	United States	Completed	700	Construction Machinery

Source: Thomson Reuters and other publicly available sources.

*In Million USD

E&C sector outlook

As noted previously, the sector continues to see muted levels of M&A activity despite underlying positive fundamentals. The ongoing geopolitical tensions and uncertainty around resolution continue the trend observed in previous quarters with muted M&A levels compared to historical periods. While Q2 2019 did see talk in the US of potential infrastructure legislation, it appears to have fallen flat despite some initial bipartisan support. Absent real movement on trade and de-escalation of some of the geopolitical tensions around the globe, we expect M&A levels to remain below historical levels for the balance of 2019.

About Deals from PwC

For a deeper discussion on deal considerations, please contact one of our practice leaders or your local Deals partner:

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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 (E&C) companies and E&C-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 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine deep engineering and construction industry skills with local market knowledge virtually anywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process, we can help.

For more information about M&A and related services in the global E&C industry, please visit www.pwc.com/us/deals or www.pwc.com/us

About the data

The information presented in this report is an analysis of deals in the global E&C industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have an SIC code that falls into one of 60 E&C industry groups. Certain adjustments have been made to the information to exclude transactions which are not specific to E&C 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 July 1, 2016 and June 30, 2019, 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.