

# Engineering growth

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## Third-quarter 2013 global engineering and construction industry mergers and acquisitions analysis



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To help provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you Engineering growth, our quarterly analysis of M&A activity in the global engineering and construction industry.

In the third quarter, engineering and construction deal activity declined significantly in volume, and total deal value also fell, although to a lesser degree. Average deal value nevertheless increased by almost one-third as a result of larger deals, including two mega-deals (valued at \$1 billion or more) in the civil engineering segment. In the largest deal, Jacobs Engineering Group, in the United States, agreed to a \$1.2 billion purchase of Australia-based Sinclair Knight Merz; the cash transaction is expected to increase Jacobs Engineering's position in the lucrative oil and gas and chemicals sectors.

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

- Deal activity by financial investors declined to less than 23 percent of deal volume, a reversal of previous trends. With the decline in current valuations, many financial investors likely are proceeding cautiously as they wait for conditions to improve. Unlike strategic investors, most financial investors are more attuned to revenue streams and short-term gains.
- Activity by acquirers from advanced economies fell to 51.4 percent, a decline that is unsurprising, given current economic uncertainties.
- Activity in the Eurozone remains weak. While GDP grew 0.3 percent in the second quarter (compared with the previous period), GDP contracted 0.6 percent, on a year-over-year, seasonally adjusted basis, and unemployment rose to 12.1 percent for the region.
- Investors remain concerned about the US economy in the wake of the partial government shutdown, which was addressed with a short-term fix on October 16. The nearly three-week shutdown could lead to a reduction in fourth-quarter economic growth of as much as 0.5 percentage points, according to estimates. A majority of infrastructure improvements, including bridges, tunnels, and highways, are driven by federal dollars or a combination of federal, state, and local funding. With government spending holding at sequester levels, expansion becomes challenging for many US engineering and construction players. Even before the shutdown, government construction spending had been reduced in the United States; publicly financed construction has suffered consecutive quarterly spending declines since the first quarter of 2012.

- Third-quarter deals occurred in all five global regions, led in volume by Asia and Oceania, with 17 deals valued at almost \$2.63 billion. China was the key driver of deal volume and value in the region, with 11 deals, of which seven were local market, and China-based acquirers were responsible for significant acquisition activity in Europe, purchasing four targets. European activity drove the highest deal value globally, accounting for more than \$3.1 billion, driven in large part by inbound activity.

Concerns about the economy, particularly in some advanced nations, continue to drive investor scepticism. The combination of sluggish economic activity in the Eurozone and budget woes in the United States is affecting top-line growth and concomitant deal activity. If current merger and acquisition activity continues at the same pace throughout 2013, deal activity in the sector could fall to its lowest point since 2005.

Looking ahead, we are cautiously optimistic regarding improvement in 2014. If the Eurozone's economy begins to recover (the IMF forecasts a 1.1 percent increase in GDP for 2014) and a long-term solution can be found for US debt and government funding issues, increased deal activity should follow.

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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