

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



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Welcome to *Engineering growth*, our quarterly analysis of mergers and acquisitions (M&A) in the engineering and construction (E&C) sector.

M&A activity accelerated in the third quarter, as the number of transactions of \$50 million or above jumped 40% over the previous quarter. Announced deals totaled \$28 billion — significantly less than the \$75 billion record set in 2Q14, but still among the highest on record. Mega-deal activity continued, with six announced transactions in the quarter. Consolidation among smaller, niche companies also significantly increased, particularly among local deals within Asia.

Global economic activity during the quarter was mixed, with improving conditions in the United States, uneven results in Asia, and multiple layers of geopolitical uncertainty and unrest.

Public spending remains restrained in many regions, but project approval has begun to ease relative to prior years. In the United States, multi-family housing construction has been robust, while job insecurity and elevated debt levels continue to plague potential new entrants to the housing market.

In Asia, structural concerns about a property and debt bubble have been offset by expectations of monetary and legislative support in Japan and easing lending conditions in China.

PwC analysts are monitoring several other trends that are expected to affect the values and locations of deals in the engineering and construction sector, including:

- The integration of design and consultancy firms with construction companies is well underway as the E&C industry continues to move toward full service integration. Firms are generally looking to leverage higher-value added services, such as design, while balancing out their regional exposure.
- A major driver of consolidation is talent needs, as companies compete for specialized technical expertise in high-demand segments. As an alternative to acquiring expertise, some companies are embarking upon joint ventures, but these are complicated and add significant operational risk to any project. Companies are positioning themselves to bid on larger, increasingly complex projects with new partners and non-traditional sources of funding.
- A flurry of smaller, local deals took place, particularly within Asia. Cross-border activity dropped to 22% of the total in the quarter, with most local activity occurring in Asia.

- Cement oversupply and tepid demand continue to plague the industry. Top players, in an attempt to maintain their market share and margin, continue to acquire smaller companies post-merger announcement of Holcim and Lafarge.
- The consolidation in Asia was not limited to the construction materials segment, and not all driven by overcapacity, as all segments of E&C experienced a pick-up in local consolidation. The uncertain economic outlook in China raises many concerns for inbound activity in Asia but does not seem to be hindering deal activity in the region.

Going forward, we expect transaction activity to remain robust as E&C firms strive for a full line of service integration and broad, diversified geographic reach. Consolidation in the building materials segment will likely continue as overcapacity continues to plague the segment and companies are scaling up to compete. Divestitures of non-core businesses, a recurring theme across the industrial products sector, will likely persist because doing so can free up capital and favorably impact financials and operations.

We're pleased to present our third-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/%20publications/engineering-growth.jhtml> for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,



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