*Engineering*growth

November 2015

Third-quarter 2015 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. In this summary, you'll find an overview of mergers and acquisitions in the sector during the third quarter of 2015.

Overview

Transaction activity proceeded at an elevated pace in the third quarter of 2015 with continued strength in both deal volume and value. The number of transactions of $50 million or above dropped slightly to 61 but remained well above the five-year median of 46. $34.0 billion in announced deals were recorded in the quarter, more than double the five-year median rate. In fact, the 2015 year-to-date total exceeds $80 billion, already the second best year since 2007. Megadeal activity was robust, with four announced transactions of $1 billion or greater in the quarter.

Economic backdrop

The US economy had previously seemed resilient in the face of a broad international slowdown with strong second quarter real GDP growth. However, the labor market clearly slowed in the third quarter amid heightened economic uncertainty. There are several reasons to remain optimistic about the US economy. While oil and gas, exporters and related industries continue to cut spending, lower gas prices, a stronger dollar, and solid – albeit slower – employment gains will drive future consumer spending, which accounts for nearly 70 percent of US economic output. US construction spending neared its highest levels in a decade with strength in both residential and nonresidential markets. In Europe, confidence in the construction sector is finally back to its pre-crisis levels while China is confronting sluggish growth with a slew of initiatives to boost infrastructure development.

M&A themes

Firms continue to focus on strengthening their project portfolios and service offerings. The continued slump in commodity prices has prompted consolidation in oilfield services related markets. Companies also continue to add specialty engineering expertise to their portfolios, particularly in off-shore platforms and select environmental specialties.

The slowdown in Asia has led to overcapacity, intense pricing competition, and consolidation in both the machinery and materials segments. One of the newly combined entities will rely on scale and cost cuts to improve its position relative to lower cost emerging market competition. In addition, another flurry of cement related deals occurred during the quarter with continued interest from investor groups.

Improved fundamentals have lifted single family housing starts despite intense competition from multi-family and rental markets. While relatively uncommon, acquisitions among homebuilders have historically targeted key demographics including new homebuyers, high-end markets, and gaps in regional portfolio. Saturation in luxury markets and challenge from millennials encourage homebuilders to consider new directions such as multifamily and retirement communities. Further consolidation is likely among larger homebuilders as the building outlook improves and the middle-to-high end market remains highly competitive in key geographies.

Outlook

We remain optimistic that deal activity in the E&C sector will continue at a brisk pace. The biggest challenge for potential buyers is calibrating the long-term growth themes (emerging markets and resource scarcity megatrends) with near-term volatility. Companies are reevaluating growth opportunities in major markets as they digest both the direct and indirect economic implications of the rapid deterioration in oil prices and consider the potential impact of regulatory tightening on US economic activity.

We're pleased to present our third-quarter 2015 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/publications/engineering-growth.jhtml* for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,

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