

# Engineering growth

August 2013

## Second-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.

During the second quarter of 2013, the volume of deals valued at \$50 million or more rebounded, jumping by more than 50 percent as organizations expanded their geographic footprints and product sets with bolt-on acquisitions. However, the total value of deals worth \$50 million or more declined \$7.8 billion, down from \$12.1 billion in the first quarter. Average deal value dropped substantially, falling to \$189 million, a decline of more than 36 percent compared with the previous quarter – its lowest point in the last three years. The decline in average and total deal value can be attributed, in part, to the lack of mega deals (transactions valued at \$1 billion or more).



Jonathan Hook

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

- Activity by financial investors increased in the second quarter, growing to 39 percent of deal value – a slight increase over 2012, when financial investors drove approximately 37 percent of deal value. This occurred despite uncertainty in the Eurozone and slowing growth in emerging economies such as India and China. Nearly half of the deals announced by financial acquirers involved US targets or acquirers, an increase which may owe in part to the recent uptick in the region's construction spending.
- The number of deals involving advanced economies increased slightly in the second quarter, driven by increased US activity as well as cooling growth in several developing economies. However, the majority of BRIC nations saw more activity in the second quarter. China was home to only five deals, four of which were local-market deals; the fifth was a Chinese acquisition of an India-based target. However, Brazil and Russia each announced one deal in the second quarter, compared with no activity in the first. In India, activity increased from no deals in the first quarter to two in the second.
- US-based companies were involved in more than one-third of deals in the second quarter, up from 11 percent in the first quarter. This increase came despite reductions in infrastructure spending as the federal government continues to grapple with reduced spending as a result of sequestration. Of the 14 deals announced in the second quarter, eight were local-market deals, while six were cross-border. This increased cross-border activity may be indicative of a stronger US presence in the global deal environment, as US players use acquisitions to

increase market share and geographic reach. US companies were involved in two of the three largest deals this quarter.

- North America, driven by the increased US activity, led in both deal volume and value in the second quarter, with 17 deals worth \$50 million or more; nine were local-market. Europe's 15 deals in the second quarter included 10 that were cross-border, making it the second most active region, despite ongoing economic woes in the Eurozone. Asia and Oceania was the third most active region globally, with 12 deals, ten of which were local-market, driven by China's continued consolidation of its construction sector.
- Overall, cross-border deals increased significantly, jumping from seven in the first quarter to 16 in the second quarter. Cross-border transactions, which have been increasing as a percentage of engineering and construction deals since 2012, typically involve greater political, socioeconomic and currency-related risks than local market transactions, so the increase may point to increased buyer optimism.
- Continuing concerns about the economy have led to some investor caution, however financial investor activity has increased somewhat compared to the first quarter. Concerns also remain regarding negative growth in the Eurozone and slowing Chinese construction activity. However, continued improvements in the US economy have led to increased M&A activity in this region. The deal environment is expected to improve, albeit slowly, as buyers see opportunities for more growth and expansion within the sector.

For a deeper dive into the data, launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/engineering-growth.jhtml>, or contact us to further discuss our insights.

Sincerely,



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