Despite growing economic uncertainty across certain markets driven by increasing geopolitical risk, Q2 deal volume remains solid, particularly in an active middle market which accounted for a greater percentage of overall M&A activity.


— Colin McIntyre,
US Engineering & Construction Deals Leader

### Key trends/highlights

- Deal value in the E&C sector declined by 42% to $21.9 billion this quarter, despite a constant deal volume. This implies that average deal size has also dropped in Q2 2016.

- Construction materials manufacturing contributed to the largest share in terms of both value and volume in Q2 2016 – 30% and 28%, respectively. The construction category followed with 24% share in deal value and recorded 13 deals in the quarter.

- Five megadeals announced in Q2 2016 with a total aggregate disclosed value of $10.2 billion.

- In Q2 2016, financial buyers deal value decreased by 21% and 30% as compared to Q1 2016 and Q2 2015, respectively. However, the deal volume increased by 15% and declined by 6% when compared to the same periods.

- Two-thirds of the transactions occurred in the Asia and Oceania region. While the region continues to observe the highest amount of M&A transactions, its average deal size remains low.

### Value by the numbers

$21.9B

34% Decrease in deal value versus Q2 2015

42% Decrease in deal value versus Q1 2016

### Volume by the numbers

68

6% Decrease in deal volume versus Q2 2015

0% Constant deal volume versus Q1 2016

Source: Thomson Reuters
M&A market activity dropped

Q2 2016 deal activity underperformed both sequentially and annually. Deal value in the quarter decreased by 41% and 34% compared to Q1 2016 and Q2 2015, respectively.

There were 68 deals announced in Q2 2016, which remained unchanged as compared to Q1 2016 but declined slightly by 6% from Q2 2015 (72 deals).

Largest transaction

In June, 2016, Tesla Motor announced its plan to acquire SolarCity for $2.8 billion. The deal accounts for 17% of the total mega deal value and 4% of the total deal value in Q2 2016.

Mega deals

There were five transactions in Q2 2016, exceeding a disclosed value of $1.0 billion, down from six in Q1 2016 and eight in Q2 2015. These five transactions account for 47% of the total disclosed deal value for the quarter.

Sub-sector category analysis

Deal activity by value fell both sequentially and annually in all E&C categories except for civil engineering. Civil engineering saw a 62% growth in value this quarter. Several categories also saw double-digit growth in volume but were lower in total value, indicating a trend toward lower average deal size for Q2 2016.
Financial vs. strategic buyers

While trade buyers continue to account for the majority of M&A transactions in E&C, both trade and financial buyers saw a decrease in deal value this quarter. On average, trade buyer transactions in E&C are larger than that of financial buyers. Financial buyers saw an increase in share of total value and volume due to a larger drop in trade buyer deal value.

Regional analysis

Local deals (transactions by targets and acquirers within the same borders) continue to account for the majority of transactions in E&C. Local deals contributed to 74% of the total deal volume and 70% of total deal value and included the two largest deals this quarter. Additionally, two-thirds of E&C deals occurred in the Asia and Oceania region. While the region continues to observe the highest amount of M&A transactions, its average deal size remains low.
Regional analysis (continued)

**Source:** Thomson Reuters and other publicly available sources

**Engineering and construction deals by region**

- **North America**
  - Local: 6 deals, $4.92 billion
  - Inbound: 2 deals, $1.32 billion
  - Outbound: 4 deals, $1.67 billion

- **Asia & Oceania**
  - Local: 45 deals, $10.91 billion
  - Inbound: 4 deals, $0.44 billion
  - Outbound: 1 deal, $0.06 billion

- **Europe ex-UK & Eurozone**
  - Local: 0 deals
  - Inbound: 2 deals, $0.14 billion
  - Outbound: 0 deals

- **South America**
  - Local: 0 deals
  - Inbound: 0 deals
  - Outbound: 1 deal, $0.05 billion

- **Africa / Undisclosed**
  - Local: 0 deals
  - Inbound: 0 deals
  - Outbound: 3 deals, $0.24 billion

**Source:** Thomson Reuters and other publicly available sources

**Our views on the remainder of 2016**

While overall deal value slipped in Q2 when compared to both the same period in the prior year and Q1 2016, deal volume remained relatively flat in comparison. A pullback of the mega deals, heightened by the economic uncertainty stemming from the current geopolitical uncertainties, has put pressure on value and overshadows continued activity in the middle market. The middle market remains active.

Desire to complete deals remains a focus within the C-suite, but differs when looking domestic US versus cross-border with almost 50% of US CEOs expecting to complete a domestic deal versus 30% of cross-border deals. We expect domestic US M&A, particularly middle market, to remain active in the remainder of the year.

These are the key factors that we predict will influence M&A activity in the E&C space as we enter the second part of 2016:

- Continued high levels of liquidity on balance sheets to fuel non-organic growth opportunities
- Geopolitical uncertainty globally influencing increasing use of less risky strategies, including alliances and joint ventures, to allow companies to action market and geographic opportunities in a balanced manner
- Continued strength in the US economy creating opportunities for both domestic and inbound transactions.
Top 10 engineering and construction deals 2016 (YTD)

<table>
<thead>
<tr>
<th>Announced</th>
<th>Target name</th>
<th>Target nation</th>
<th>Acquirer name</th>
<th>Acquirer nation</th>
<th>Status</th>
<th>Deal value*</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>03/13/16</td>
<td>Shenzhen Metro Qianhai International Development Co Ltd</td>
<td>China</td>
<td>China Vanke Co Ltd</td>
<td>China</td>
<td>Pending</td>
<td>10,806</td>
<td>Construction</td>
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<tr>
<td>02/26/16</td>
<td>KUKA AG</td>
<td>Germany</td>
<td>MECA International (BVI) Ltd</td>
<td>British Virgin</td>
<td>Pending</td>
<td>4,663</td>
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<tr>
<td>02/16/16</td>
<td>Terex Corp</td>
<td>United States</td>
<td>Zoomlion Heavy Industry Science &amp;Technology Co Ltd</td>
<td>China</td>
<td>Withdrawn</td>
<td>3,364</td>
<td>Construction machinery</td>
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<tr>
<td>06/21/16</td>
<td>SolarCity Corp</td>
<td>United States</td>
<td>Tesla Motors Inc</td>
<td>United States</td>
<td>Pending</td>
<td>2,885</td>
<td>Construction</td>
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<tr>
<td>06/29/16</td>
<td>BBMG Corp-Assets</td>
<td>China</td>
<td>Tangshan Jidong Cement Co Ltd</td>
<td>China</td>
<td>Pending</td>
<td>2,587</td>
<td>Construction materials manufacturing</td>
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<td>03/04/16</td>
<td>Fomento de Construcciones y Contratas SA</td>
<td>Spain</td>
<td>Control Empresarial de Capitales SA de CV</td>
<td>Mexico</td>
<td>Intended</td>
<td>2,416</td>
<td>Home building</td>
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<tr>
<td>02/28/16</td>
<td>Jaipuraksh Associates Ltd-Cement Units(6)</td>
<td>India</td>
<td>UltraTech Cement Ltd</td>
<td>India</td>
<td>Pending</td>
<td>2,401</td>
<td>Construction materials manufacturing</td>
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<tr>
<td>06/21/16</td>
<td>DH Services Luxembourg Holding SARL</td>
<td>Luxembourg</td>
<td>Kion Group AG</td>
<td>Germany</td>
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<td>2,300</td>
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<tr>
<td>02/03/16</td>
<td>RONA Inc</td>
<td>Canada</td>
<td>Lowe’s Cos Inc</td>
<td>United States</td>
<td>Completed</td>
<td>1,943</td>
<td>Construction</td>
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<tr>
<td>08/02/16</td>
<td>Bilfinger SE-Building &amp; Facility Division</td>
<td>Germany</td>
<td>EQT VII Ltd</td>
<td>United Kingdom</td>
<td>Pending</td>
<td>1,343</td>
<td>Home building</td>
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</table>

*In $US Millions
Source: Thomson Reuters and other publicly available sources

Top 10 engineering and construction deals 2015

<table>
<thead>
<tr>
<th>Announced</th>
<th>Target name</th>
<th>Target nation</th>
<th>Acquirer name</th>
<th>Acquirer nation</th>
<th>Status</th>
<th>Deal value*</th>
<th>Category</th>
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<tbody>
<tr>
<td>08/26/15</td>
<td>Cameron International Corp</td>
<td>United States</td>
<td>Schlumberger Ltd</td>
<td>United States</td>
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<td>12/24/15</td>
<td>PetroChina United Pipelines Co Ltd</td>
<td>China</td>
<td>PetroChina Pipelines Co Ltd</td>
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<td>Pending</td>
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<td>03/26/15</td>
<td>Samsung C&amp;T Corp</td>
<td>South Korea</td>
<td>Cheil Industries Inc</td>
<td>South Korea</td>
<td>Completed</td>
<td>8,083</td>
<td>Civil engineering</td>
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<tr>
<td>02/02/15</td>
<td>Lafarge SA &amp; Holcim Ltd-Certain Assets</td>
<td>France</td>
<td>CRH PLC</td>
<td>Ireland-Rep</td>
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<td>7,370</td>
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<tr>
<td>10/29/15</td>
<td>Verallia SA</td>
<td>France</td>
<td>Investor Group</td>
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<td>Completed</td>
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<td>Construction</td>
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<td>03/11/15</td>
<td>Terex Corp</td>
<td>United States</td>
<td>Konecranes Abp</td>
<td>Finland</td>
<td>Withdrawn</td>
<td>2,762</td>
<td>Construction machinery</td>
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<td>06/03/15</td>
<td>Areva NP SAS</td>
<td>France</td>
<td>Electricite de France SA</td>
<td>France</td>
<td>Pending</td>
<td>2,418</td>
<td>Construction</td>
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<tr>
<td>07/28/15</td>
<td>Italcementi Fabbriche Riunite Cemento SpA Bergamo</td>
<td>Italy</td>
<td>HeidelbergCement AG</td>
<td>Germany</td>
<td>Intended</td>
<td>2,228</td>
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<tr>
<td>03/13/15</td>
<td>Vitro SAB de CV-Food &amp; Beverage Glass Container Business</td>
<td>Mexico</td>
<td>Owens-Illinois Inc</td>
<td>United States</td>
<td>Completed</td>
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<td>06/14/15</td>
<td>Ryland Group Inc</td>
<td>United States</td>
<td>Standard Pacific Corp</td>
<td>United States</td>
<td>Completed</td>
<td>2,011</td>
<td>Home building</td>
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Top 10 engineering and construction deals 2014

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<tr>
<th>Announced</th>
<th>Target name</th>
<th>Target nation</th>
<th>Acquirer name</th>
<th>Acquirer nation</th>
<th>Status</th>
<th>Deal value*</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/14/14</td>
<td>Baker Hughes Inc</td>
<td>United States</td>
<td>Halliburton Co</td>
<td>United States</td>
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<td>Lafarge SA</td>
<td>France</td>
<td>Holcim Ltd</td>
<td>Switzerland</td>
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<td>20,628</td>
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<td>04/30/14</td>
<td>Alstom SA-Energy Businesses</td>
<td>France</td>
<td>General Electric Co-Energy Assets</td>
<td>United States</td>
<td>Completed</td>
<td>10,702</td>
<td>Civil engineering</td>
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<tr>
<td>04/23/14</td>
<td>Queensland Motorways Ltd</td>
<td>Australia</td>
<td>Investor Group</td>
<td>Australia</td>
<td>Completed</td>
<td>6,609</td>
<td>Construction</td>
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<td>04/27/14</td>
<td>Alstom SA-Gas Business</td>
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<td>Withdrawn</td>
<td>5,306</td>
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<tr>
<td>04/27/14</td>
<td>Alstom SA-Steam &amp; Nuclear Business</td>
<td>France</td>
<td>Mitsubishi Heavy Industries Ltd</td>
<td>Japan</td>
<td>Withdrawn</td>
<td>5,106</td>
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<td>07/13/14</td>
<td>URS Corp</td>
<td>United States</td>
<td>AECOM Technology Corp</td>
<td>United States</td>
<td>Completed</td>
<td>3,886</td>
<td>Civil engineering</td>
</tr>
<tr>
<td>07/24/14</td>
<td>Balfour Beatty PLC</td>
<td>United Kingdom</td>
<td>Carillion PLC</td>
<td>United Kingdom</td>
<td>Withdrawn</td>
<td>3,465</td>
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<tr>
<td>03/13/14</td>
<td>Foster Wheeler AG</td>
<td>United Kingdom</td>
<td>AMEC PLC</td>
<td>United Kingdom</td>
<td>Completed</td>
<td>3,149</td>
<td>Construction</td>
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<tr>
<td>06/20/14</td>
<td>Alstom SA</td>
<td>France</td>
<td>France</td>
<td>France</td>
<td>Intended</td>
<td>2,938</td>
<td>Civil engineering</td>
</tr>
</tbody>
</table>

*In $US Millions
Source: Thomson Reuters and other publicly available sources
About PwC

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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 companies and engineering and construction-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 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine engineering and construction industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

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About the data

The information presented in this report is an analysis of deals in the global engineering and construction industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have an SIC code that falls into one of the 60 engineering and construction industry groups. Certain adjustments have been made to the information to exclude transactions which are not specific to engineering and construction 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 January 1, 2013 and June 30, 2016, with a deal status of completed, intended, partially completed, pending, pending regulatory, pending completion, withdrawn and unconditional (i.e., initial conditions set forth by the buyer have been met but deal has not been withdrawn 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.