



PwC Deals

Global Engineering and Construction Deals Insights Q2 2018

Expansion prospects remain solid amid global trade headwinds

Executive summary

Despite favourable macro trends with US corporate tax reform, buoyant housing market, and an otherwise very robust M&A environment, the E&C sector has lagged the broader market. Overall M&A activity in Q2 2018 deal value increased 2% versus Q1 2018 despite a decrease in volume in the current period. On year-over-year basis, Q2 2018 continues to lag the same period in 2017 with a negative M&A activity growth of -16%.

The rise in building material prices due to the turbulent trade policies is likely to further challenge potential buyers as sellers face new profitability pressures. Amidst these tensions, inorganic growth is expected to increase within borders while a weakening dollar will possibly make US companies potential targets. Finally, skilled labor shortages would drive more consolidation as companies will look to strategically acquire talent.

Despite a slow start to M&A activity in 2018 within the sector, the underlying fundamentals fueling growth remain strong with continued demand for housing, addressing long-delayed infrastructure improvements and new investment. As the year plays out it remains to be seen how much an impact the current trade tensions have in reigning in otherwise strong underlying fundamentals in the sector.

“M&A activity in Q2 increased versus Q1 despite a decrease in deal volume over that period. While current underlying sector fundamentals remain strong (e.g., US corporate tax reform, buoyant housing), trade policy actions between the US and key trading partners, will likely weigh on M&A activity as the year plays out.”



Colin McIntyre,
US Engineering and Construction
Deals Leader,
PwC

Trends and highlights

- Deal value in Q2 2018 was \$21.3 billion, increased slightly by 2% from last quarter but decreased 20% compared to Q2 2017.
- There were 499 deals this quarter, 20% and 28% lower than Q1 2018 and Q2 2017, respectively.
- Average deal size was \$107.6 million increasing 4% from Q1 2018.
- Although there was no megadeal announced this quarter, Gebr Knauf KG's acquisition of USG Corp. for \$6.1 billion received approval. The deal was announced in Q1 2018 but rejected by USG citing lower valuation of the company.
- North America is trending upward as an M&A target, both in volume and value.
- While domestic transactions continue to drive M&A volume, cross-border deal value decreased by 53% compared to previous quarter.

Q2 2018	2018 YTD versus 2017 YTD	Q2 2018 versus Q1 2018
Total deal value \$21.3B	20% ↓	2% ↑
Total deal volume 499	18% ↓	20% ↓
Average deal size \$107.6M	4% ↓	4% ↑



Deal activity

Deal value increased slightly by 2% to \$21.3 billion in the second quarter of 2018 but decreased by 16% from the second quarter of 2017. While average deal size increased during both periods, the number of transactions declined by 20% and 28%, respectively. Tax reform and high infrastructure investment pushed deal value growth while ongoing trade barriers impacted the deal volume.

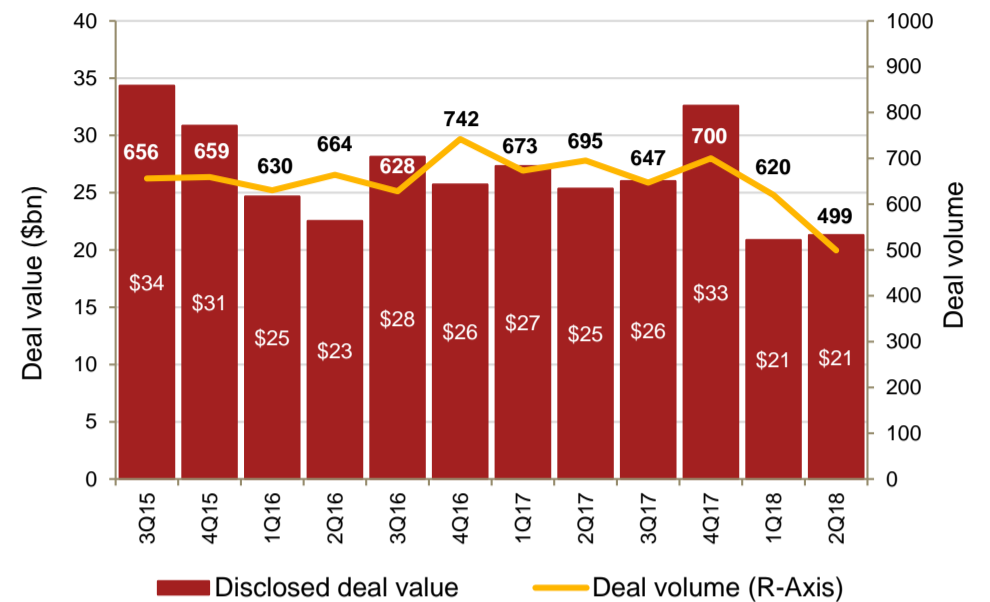
Largest transaction

In April, Leonard Green & Partners LP agreed to acquire SRS Distribution Inc., a McKinney, TX, based roofing and insulation material merchant wholesaler for \$3 billion. The deal came amid strong demand for roofing products in the US. Another transaction valued at \$6.1 billion between Germany's Gebr Knauf KG and USG Corp. was approved this quarter. USG rejected the deal last quarter.

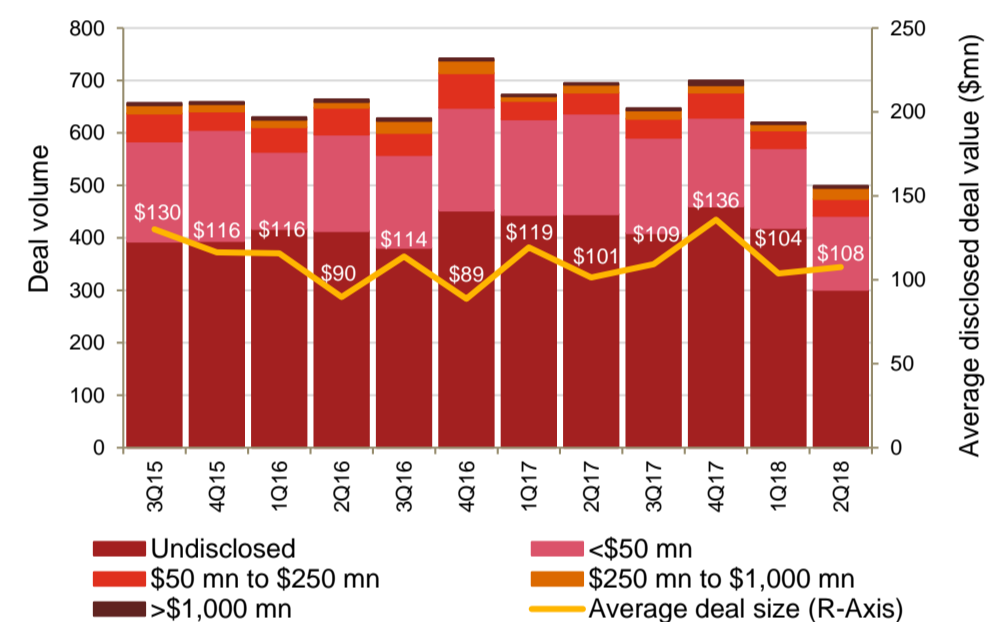
Megadeals*

There were no megadeals announced in Q2 2018. However, the \$6.1 billion megadeal announced in Q1 2018 between Gebr Knauf KG and USG Corp. has been approved in this quarter. The deal was rejected earlier by USG Corp. quoting lower valuation. The transaction is expected to close in early 2019.

Total deal value and volume



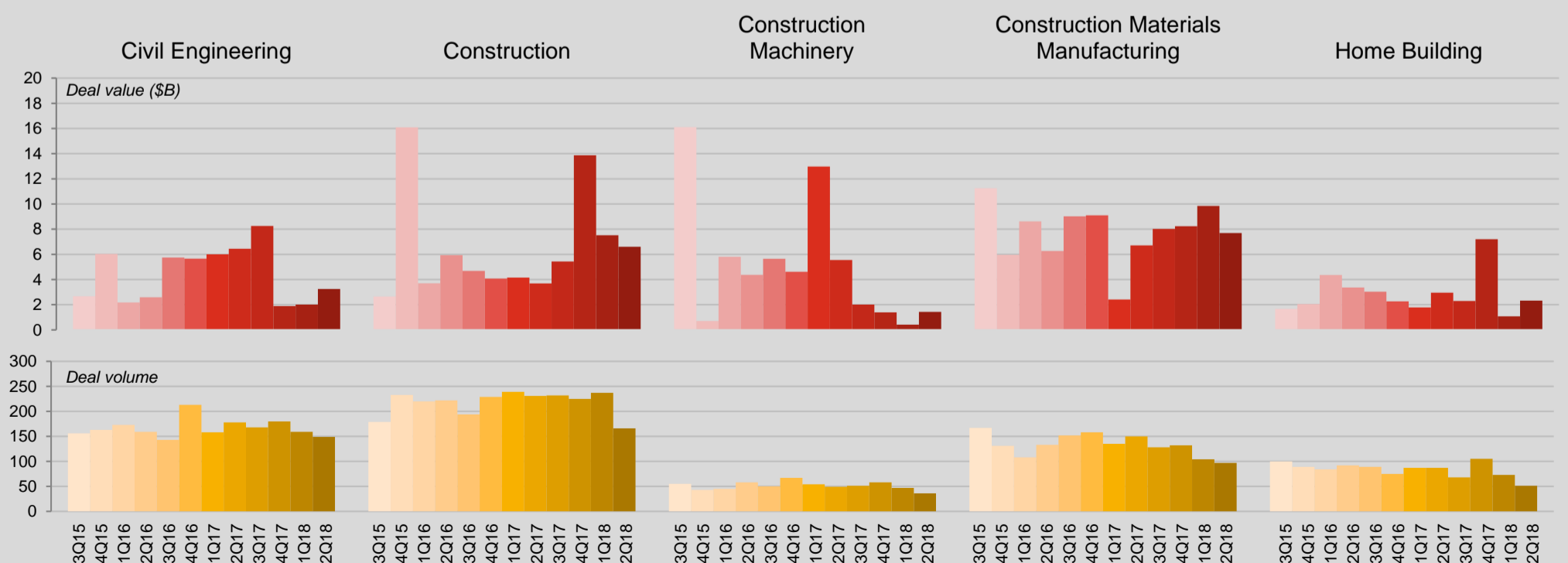
Deals by disclosed value



Source: Thomson Reuters and other publicly available sources

Sector category analysis

The Construction Materials Manufacturing category contributed the highest share of deal value in the second quarter of 2018. Five of the top ten deals fall into this category. Deal volume continues to be driven by the Construction and Civil Engineering categories.



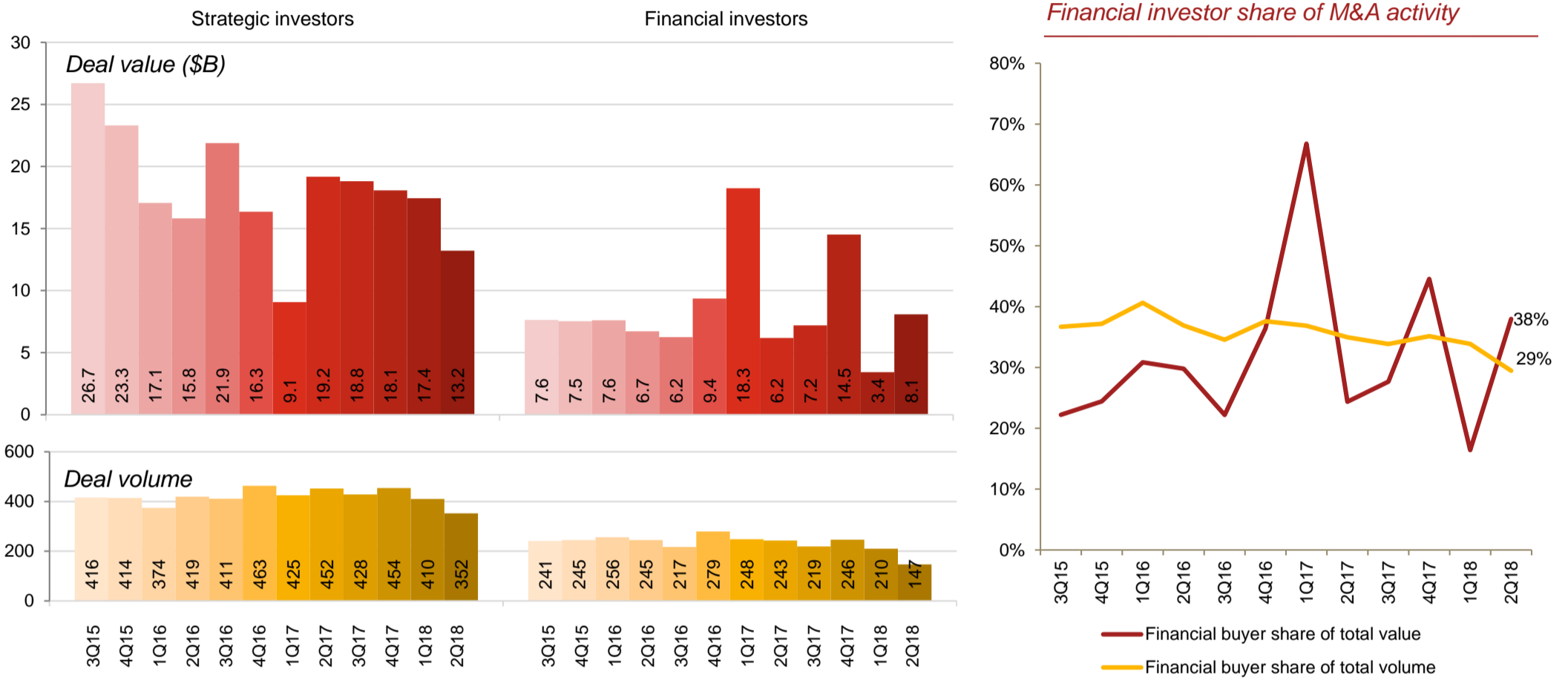
Source: Thomson Reuters and other publicly available sources

*Megadeals are defined as deals with disclosed value equal to or greater than \$5 billion USD.

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Financial vs. strategic investors

Strategic investors continue to account for a majority share of deal activity in the sector. Sixty-two percent of value and 71% of volume was attributed to transactions between sector participants this quarter. Financial buyer's share of total value increased to 38% this quarter as they expect near-term profits, especially by investing in construction companies.

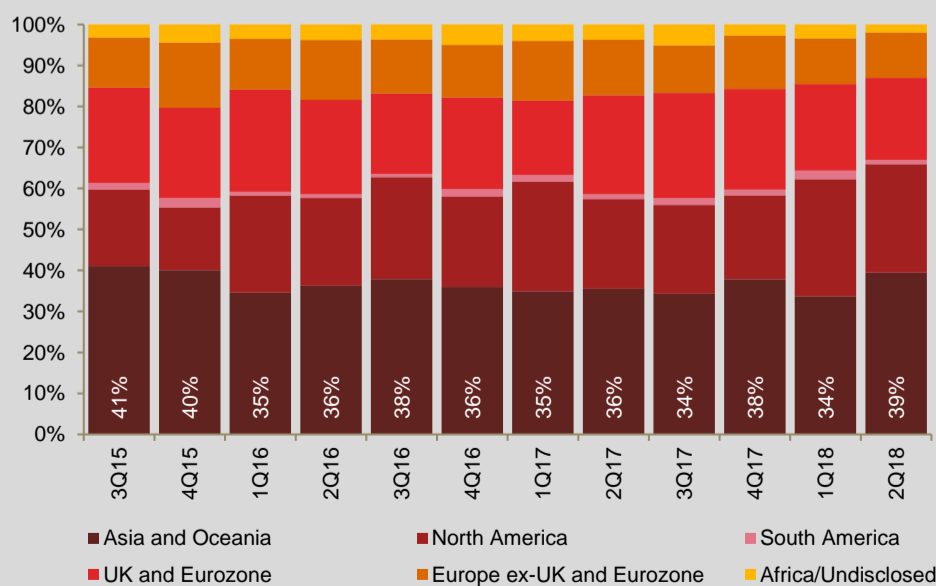


Source: Thomson Reuters and other publicly available sources

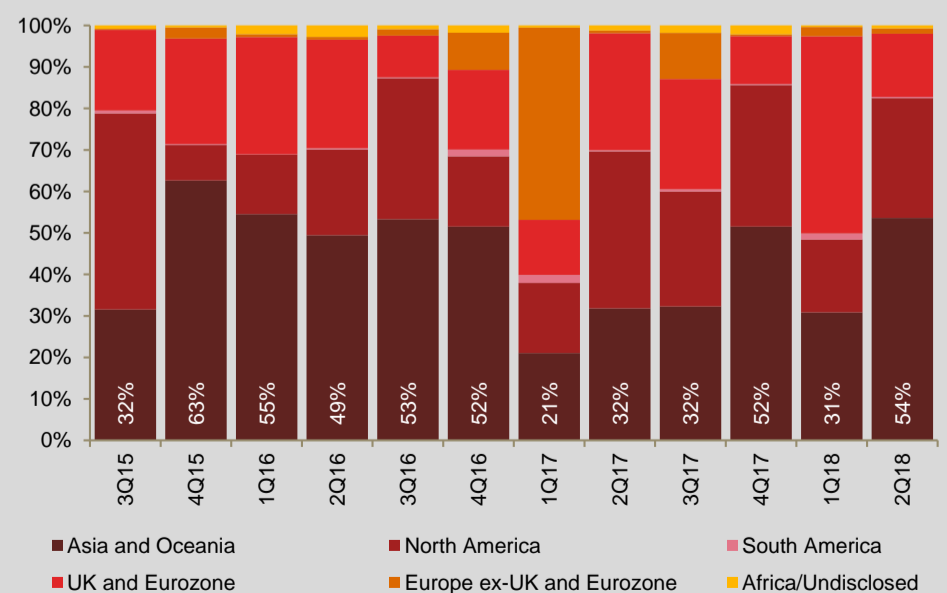
Regional analysis

The Asia and Oceania, North America, and UK and Eurozone regions continue to have the most notable contributions to deal volume this quarter. Asia and Oceania contributed the highest target and acquisition values. North America continues to be a favored destination for M&A targets, both in volume and value. Domestic transactions continue to drive both M&A volume and value in Q2 2018. The declining cross-border deals could have been impacted by the narrative around the current trade war.

Share of deal volume by acquirer region



Share of deal value by acquirer region

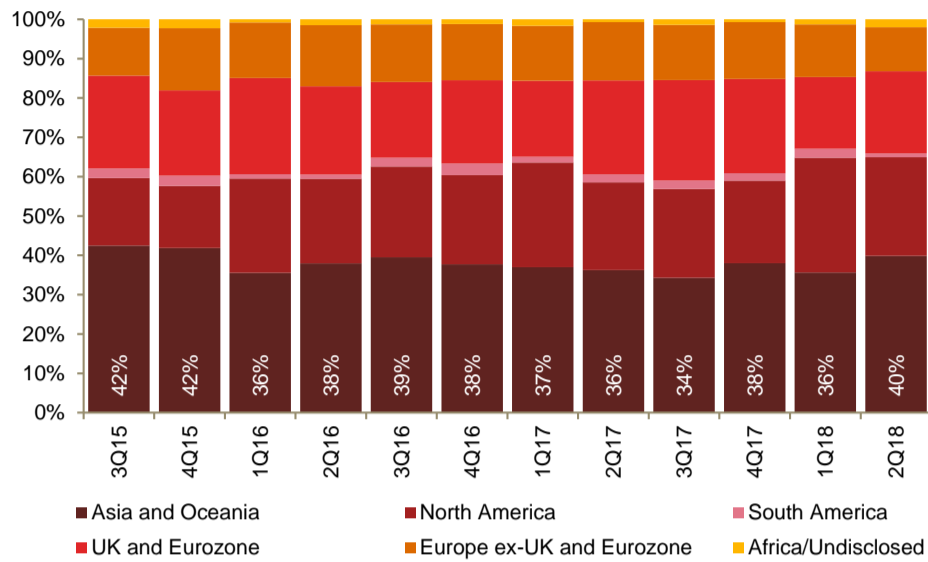


Source: Thomson Reuters and other publicly available sources

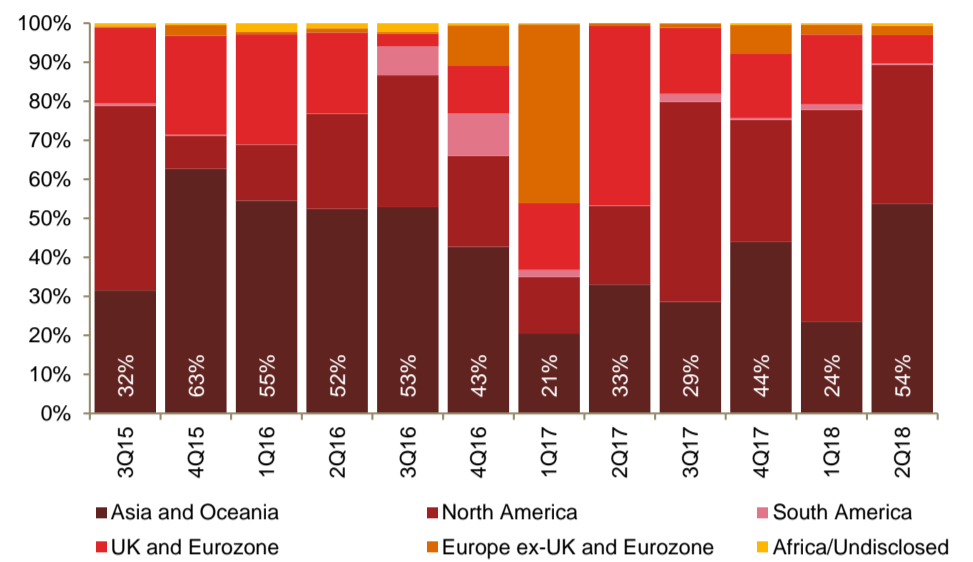
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Regional analysis (continued)

Share of disclosed deal volume by target region

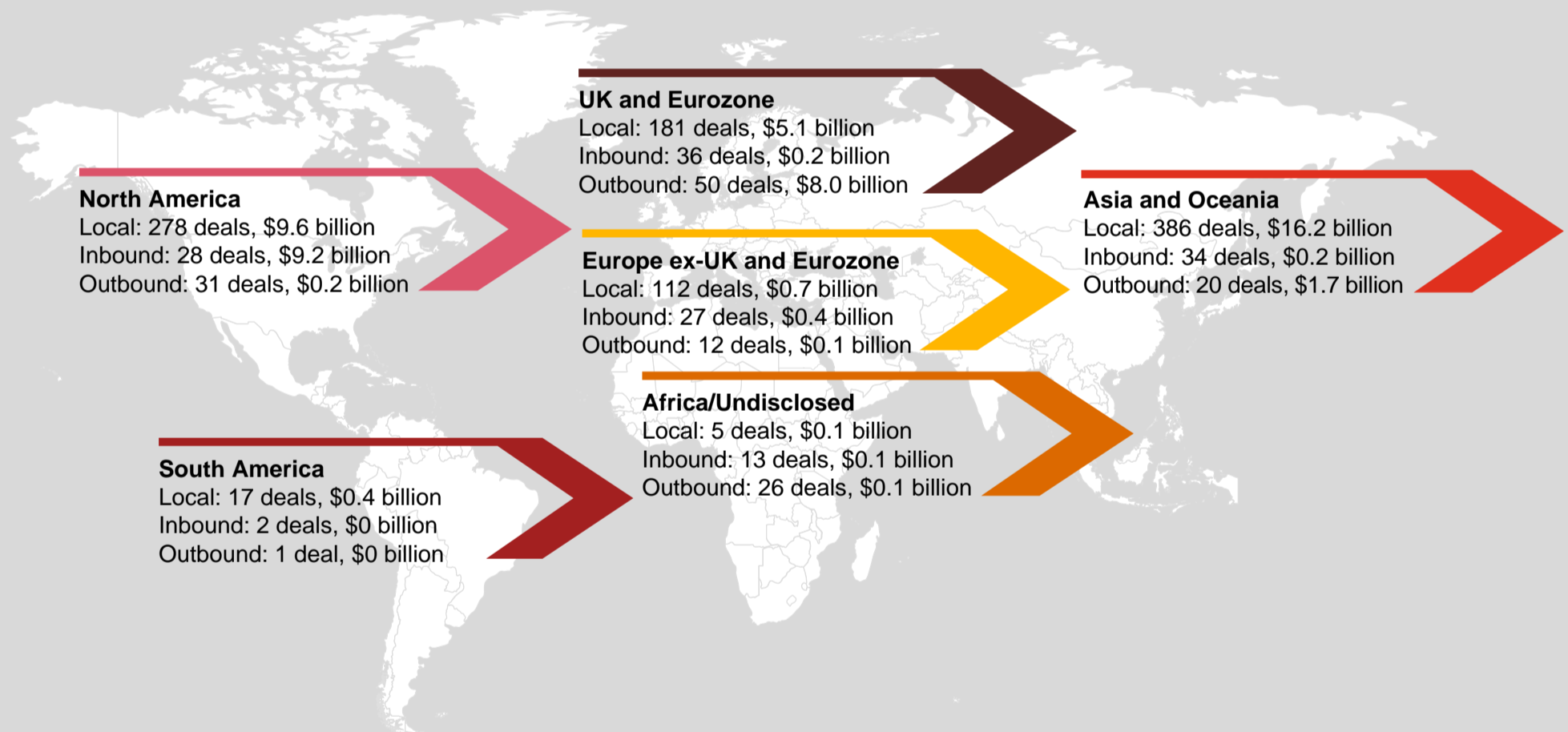


Share of disclosed deal value by target region



Source: Thomson Reuters and other publicly available sources

E&C deals by region



Source: Thomson Reuters and other publicly available sources

E&C deals outlook

M&A activity in the E&C sector continues to lag the broader macro level M&A trends as year-over-year trends 2018 YTD versus the prior year are negative. While transactions have not picked up, there is a positive momentum in deal value over the first two quarters of 2018. Lower US corporate taxes along with new infrastructure bill in the US is making the construction market more competitive and pushing private investments. With tax cuts and an estimated near-term growth in profits, private buyers are likely to increase investments in construction companies. Further, a higher focus on expanding capabilities along with increasing project size and complexity may push strategically driven deals and lead to more vertical integration.

Headwinds from ongoing developing trade tensions leading to tariff increases on building materials, metals, and chemicals will likely become a growing concern for deal makers. In addition, underlying political pressures may further pressure M&A activity, particularly inbound cross-border investments.

Overall, the long-term fundamentals remain good. Key growth drivers including rising infrastructure investments and the pull through across the sector of a robust housing market, are likely to offset the risks by geopolitical issues in the coming months and lead the M&A activity on a solid course.

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Top 10 E&C deals 2018

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
03/26/18	USG Corp.	United States	Gebr Knauf KG	Germany	Pending	6,102	Construction Materials Manufacturing
03/14/18	Hochtief AG	Germany	Atlantia SpA	Italy	Pending	3,097	Construction Construction Materials Manufacturing
04/27/18	SRS Distribution Inc.	United States	Leonard Green & Partners LP HNA Infrastructure Investment Group Co. Ltd.	United States	Pending	3,000	Construction Construction Materials Manufacturing
06/23/18	HNA Financial Phase 1 Co. Ltd. Century Textiles & Industries Ltd.- Cement Business	Hong Kong	UltraTech Cement Ltd.	China	Pending	1,438	Construction Construction Materials Manufacturing
05/20/18	Binani Cement Ltd.	India	UltraTech Cement Ltd.	India	Pending	1,234	Construction Materials Manufacturing
02/12/18	ESCO Corp.	United States	Weir Group PLC	United Kingdom	Pending	1,118	Construction Materials Manufacturing Machinery
04/19/18	Katerra Inc.	United States	Investor Group	Japan	Pending	1,051	Civil Engineering
01/24/18	Textron Inc.-Tools & Test Business	United States	Emerson Electric Co.	United States	Completed	865	Civil Engineering Construction Materials Manufacturing
04/18/18	EP Minerals LLC	United States	US Silica Holdings Inc.	United States	Completed	810	Civil Engineering Construction Materials Manufacturing
03/23/18					Completed	750	

Top 10 E&C deals 2017

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
01/16/17	Atlas Copco AB-Mining & Civil Engineering Business	Sweden	Shareholders	Sweden	Completed	12,331	Construction Machinery
10/30/17	CalAtlantic Group Inc.	United States	Lennar Corp.	United States	Completed	5,790	Home Building Construction Machinery
06/01/17	WIRTGEN GROUP Holding GmbH Zhongtian Urban Investment Group Co. Ltd.	Germany	Deere & Co. Guiyang Jinshiqi Industrial Investment Co. Ltd.	United States	Completed	5,173	Construction Construction Materials Manufacturing
12/29/17	Ash Grove Cement Co.	China	CRH PLC	China	Completed	3,766	Construction Construction Materials Manufacturing
09/20/17	CH2M Hill Cos Ltd.	United States	Jacobs Engineering Group Inc.	Ireland-Rep	Completed	3,500	Civil Engineering
08/02/17	Amec Foster Wheeler PLC	United States	John Wood Group PLC	United Kingdom	Completed	3,215	Civil Engineering Construction Materials Manufacturing
03/13/17	Allied Building Products Corp.	United Kingdom	Beacon Roofing Supply Inc.	United States	Completed	2,706	Civil Engineering Construction Materials Manufacturing
08/24/17	WS Atkins PLC	United States	SNC-Lavalin (GB) Holdings Ltd.	United States	Completed	2,652	Civil Engineering
04/03/17	Ge Industrial Solutions Inc.	United Kingdom	ABB Ltd.	United Kingdom	Completed	2,613	Civil Engineering
09/25/17		United States		Switzerland	Pending	2,600	Civil Engineering

Top 10 E&C deals 2016

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
02/26/16	KUKA AG	Germany	MECCA International (BVI) Ltd.	British Virgin Islands	Completed	4,381	Construction Machinery
09/10/16	China National Petroleum Corp.- Assets	China	Xinjiang Dushanzi Tianli High & New Tech Co. Ltd.	China	Completed	4,146	Civil Engineering Construction Machinery
07/21/16	Joy Global Inc.	United States	Komatsu America Corp.	United States	Completed	2,778	Construction Machinery
06/21/16	SolarCity Corp.	United States	Tesla Motors Inc.	United States	Completed	2,590	Construction Construction Materials Manufacturing
06/29/16	BBMG Corp.-Assets Jaiprakash Associates Ltd.-Cement Units(6)	China	Tangshan Jidong Cement Co. Ltd.	China	Pending	2,587	Construction Materials Manufacturing
02/28/16	DH Services Luxembourg Holding SARL	India	UltraTech Cement Ltd.	India	Completed	2,410	Construction Materials Manufacturing
06/21/16	RONA Inc.	Luxembourg	Kion Group AG	Germany	Completed	2,100	Construction Machinery
02/03/16	Headwaters Inc.	Canada	Lowe's Cos Inc.	United States	Completed	1,943	Construction Materials Manufacturing
11/21/16	Linea Amarilla SAC	United States	Boral Ltd.	Australia	Completed	1,798	Construction Materials Manufacturing
08/08/16		Peru	VINCI Highways SAS	France	Completed	1,651	Construction

Source: Thomson Reuters and other publicly available sources

¹ In Million USD

About PwC's Deals Practice

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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 (E&C) companies and E&C-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 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine deep health services industry skills with local market knowledge virtually anywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process, we can help.

For more information about M&A and related services in the global E&C industry, please visit www.pwc.com/us/deals or www.pwc.com/us

About the data

The information presented in this report is an analysis of deals in the global E&C industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have an SIC code that falls into one of 60 E&C industry groups. Certain adjustments have been made to the information to exclude transactions which are not specific to E&C 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 July 1, 2015 and June 30, 2018, with a deal status of completed, partially completed, pending, pending regulatory and pending completion, 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.