

PwC Deals

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Global Engineering and Construction Deals Insights Year-end 2018

Executive summary

M&A activity within the sector continued to lag prior years on an overall deal value and volume basis. Q4 2018 was a bright spot in the year with two significant transactions announced, driving average deal size to its second highest levels in 12 quarters. Continued geopolitical uncertainty, despite positive underlying sector fundamentals, are driving more muted M&A levels. Entering the new year, the fundamentals remain favorable at a sector level. These, combined with strong corporate balance sheets, record levels of dry powder and stable debt markets, are supportive of continued M&A momentum.



"M&A values picked up significantly in Q4 2018 buoyed by two significant transactions. Despite decreases in overall year-over-year activity, the underlying sector fundamentals remain strong and further supported by favorable availability of capital."

— Colin McIntyre, US Engineering and Construction Deals Leader

2018	2018 versus 2017	Q4 2018 versus Q3 2018
Total deal value \$94 billion	21%	12%
Total deal volume 2,239	18%	11%
Average deal size \$113.1 million	7%	9%

Trends and highlights

- Deal value in 2018 was \$94 billion, a significant decline of 21% over 2017. However, the deal value in Q4 with \$26.2 billion increased by 12% vis-à-vis previous quarter buoyed by two material transactions announced in Q4, including Hitachi's acquisition of ABB's Power System Division.
- Average deal size in 2018 was \$113.1 million, a slight decrease versus FY 2017 of only 7% (compared to a decline in deal volume for deals with disclosed deal value of 14%) reflecting strong valuation levels and deal size. In Q4 2018, the average deal size was \$134.4 million, second only to Q4 2017.
- At the regional level, 55% of deal value was driven by Asia and Oceania acquirers, and 67% of deal value was driven by strategic investors—both weighted by the Hitachi acquisition noted previously, as well as WorleyParson's acquisition of Jacob's Energy & Chemicals business announced in October.

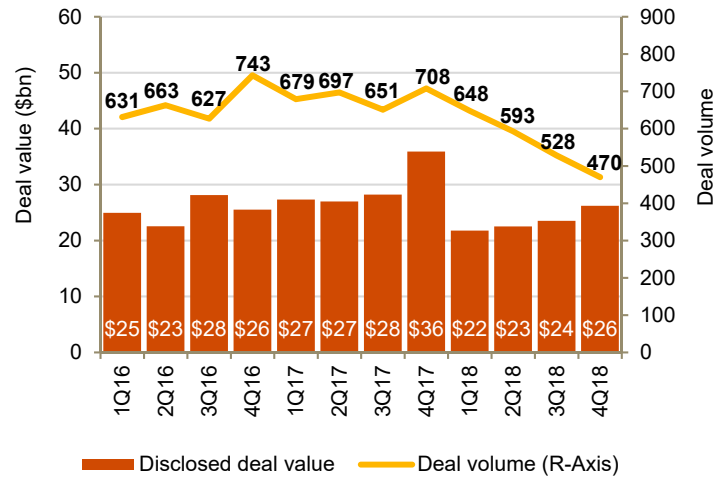
Note: Deal value and average deal size is based on deals with disclosed value. Deal volume includes all deals with and without disclosed value.

Highlights of 2018 deal activity

Deal value and volume overview

With \$94.0 billion of deal value in 2018, the E&C sector witnessed a decline of 21% over 2017. Likewise, the deal volume also declined by 18% to 2,239 in 2018. However, the Q4 showcased a quarterly growth of 12%, as the deal value increased to \$26.2 billion—primarily driven by the megadeal of Hitachi Ltd. acquiring ABB Ltd.-Power Systems Division for \$6.4 billion, and 11% lesser deal volume than previous quarter

Total deal value (in \$ billion) and volume



Largest transaction

The largest deal of the year was the 51% acquisition of Sydney Motorway Corp. - WestConnex Motorway by an investor group primarily led by Transurban Group for \$6.8 billion. The acquisition strengthened Transurban's portfolio, which owns seven of Sydney's nine toll roads. The acquisition of Power Systems Division of ABB Ltd. by Hitachi Ltd. for \$6.4 billion was the largest deal of Q4 2018.

\$6.8 billion



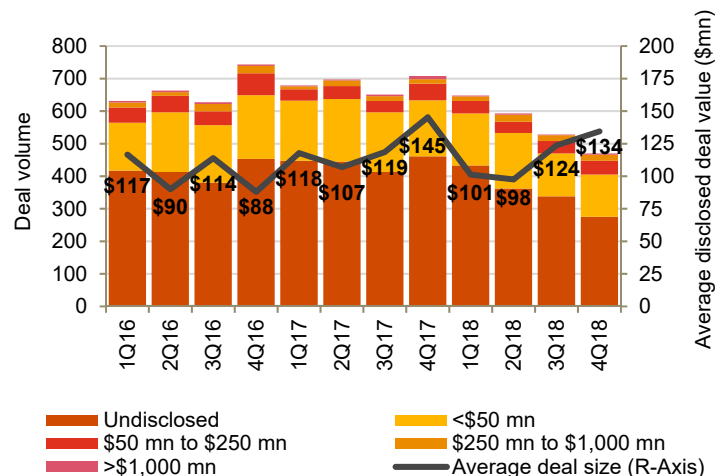
Megadeals (\$5 billion and over)

Three megadeals occurred during the year valued at \$19.3 billion, and contributed 20% of total deal value in 2018. Apart from the Sydney Motorway Corp. - WestConnex Motorway's acquisition by an investor group, the year also witnessed acquisition of ABB Ltd.-Power Systems Division by Hitachi Ltd., and USG Corp's acquisition by Gebr Knauf KG for \$6.1 billion.

3 mega-deals



Deals by disclosed value



Deals by disclosed value and average deal size

The average deal value of \$113.1 million witnessed a decline of 7%, vis-à-vis 2017. However, the average deal size in Q4 2018 showcased the best performance in last 12 quarters second only to Q4 2017, with a significant quarterly increase of 9% to \$134.4 million.

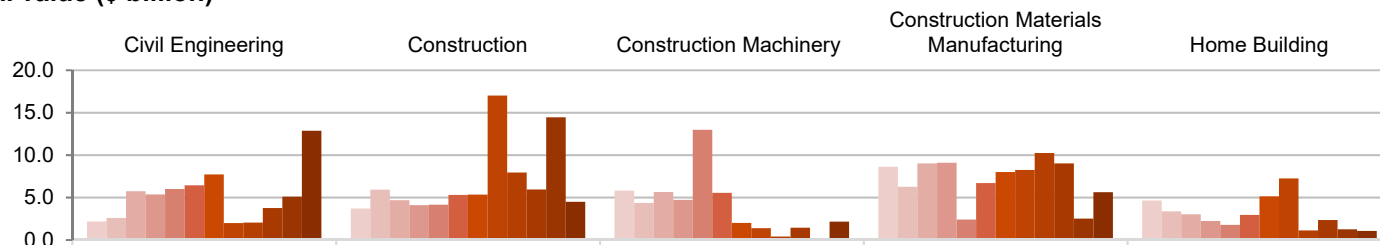
Source: Thomson Reuters and other publicly available sources; *Megadeals defined as deals with disclosed value equal to or greater than \$5 billion.

Highlights of 2018 deal activity, continued

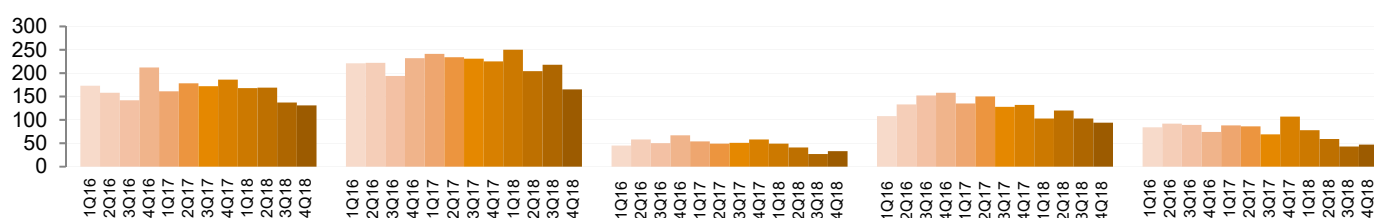
Sub-sector analysis

In Q4 2018, the Civil Engineering category dominated the deal value for the first time during 2016-YTD 2018 with 49% of share, driven by the megadeal of Hitachi Ltd.'s acquisition of Power Systems Division from ABB Ltd. for \$6.4 billion. For full year, the Construction segment contributed for majority of the deal value with 35%. However, the contribution of Civil Engineering with 25% of deal value in 2018, further emphasized the US government's increased spending on infrastructure.

Deal value (\$ billion)



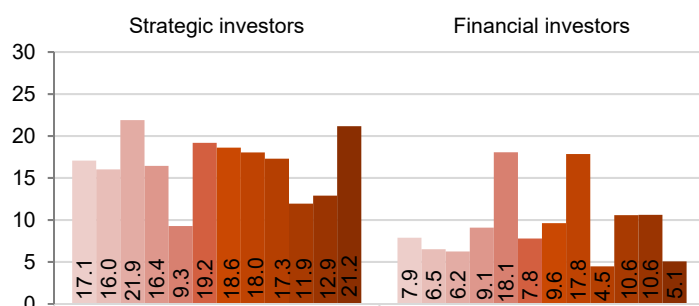
Deal volume



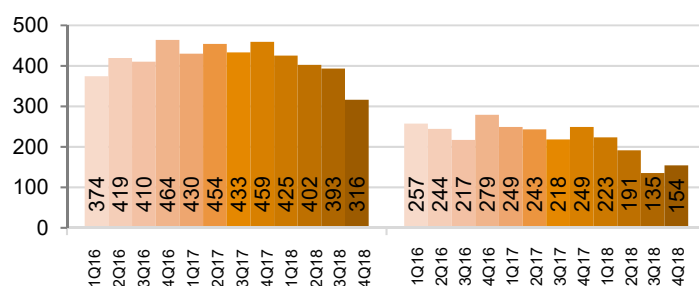
Financial vs. strategic investors

Strategic investors continued their dominance throughout 2018, accounting for the largest share of deal activities in 2018 with a contribution of 67% of deal value and 69% of volume. In Q4, the strategic investors accounted for \$21.2 billion of deal value which indicated a significant increase of 64% from previous quarter, though deal volume witnessed a quarterly decline of 20% to 316.

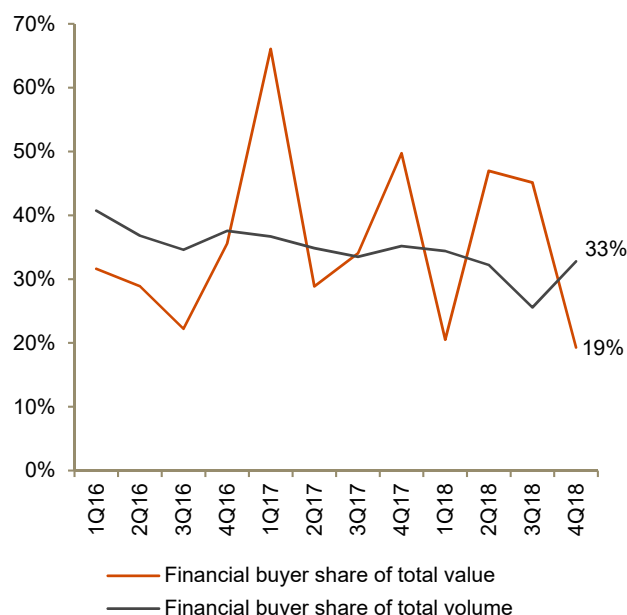
Deal value (\$ billion)



Deal volume



Financial investor share of M&A activity

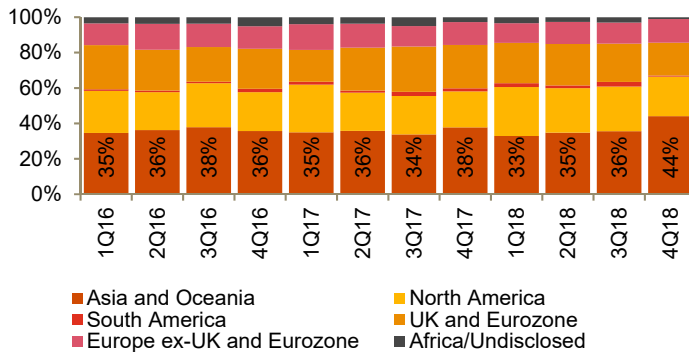


Regional deal trends in 2018

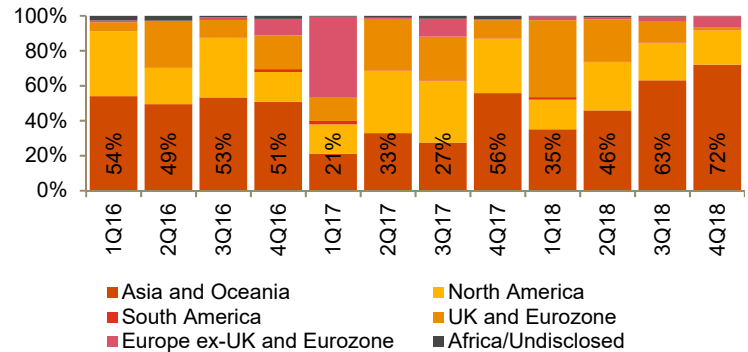
Regional analysis

Asia and Oceania remains the most active acquirer with 55% share of deal value, followed by North America with 21.4%. This pattern carries over to target regions also, with Asia and Oceania accounting for 42% of the deal value in 2018. The UK and Eurozone's decline in participation as a target (12.5%) in terms of deal value, could be an outcome of the region's diplomatic stance to a changing geopolitical landscape especially Brexit.

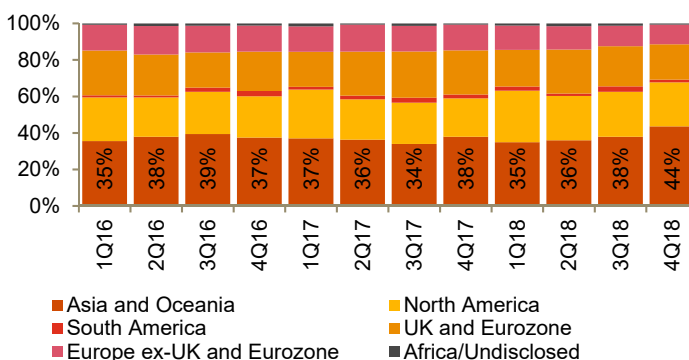
Share of deal volume by acquirer region



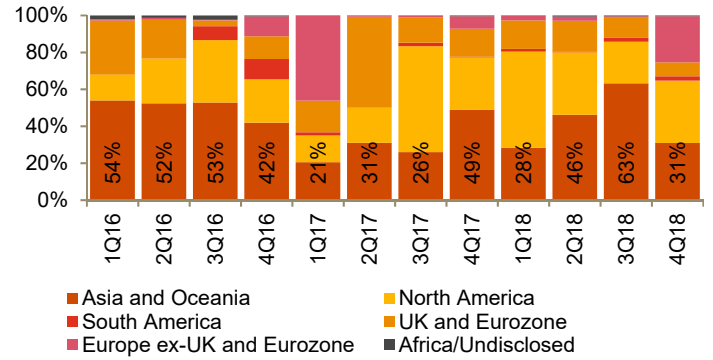
Share of deal value by acquirer region



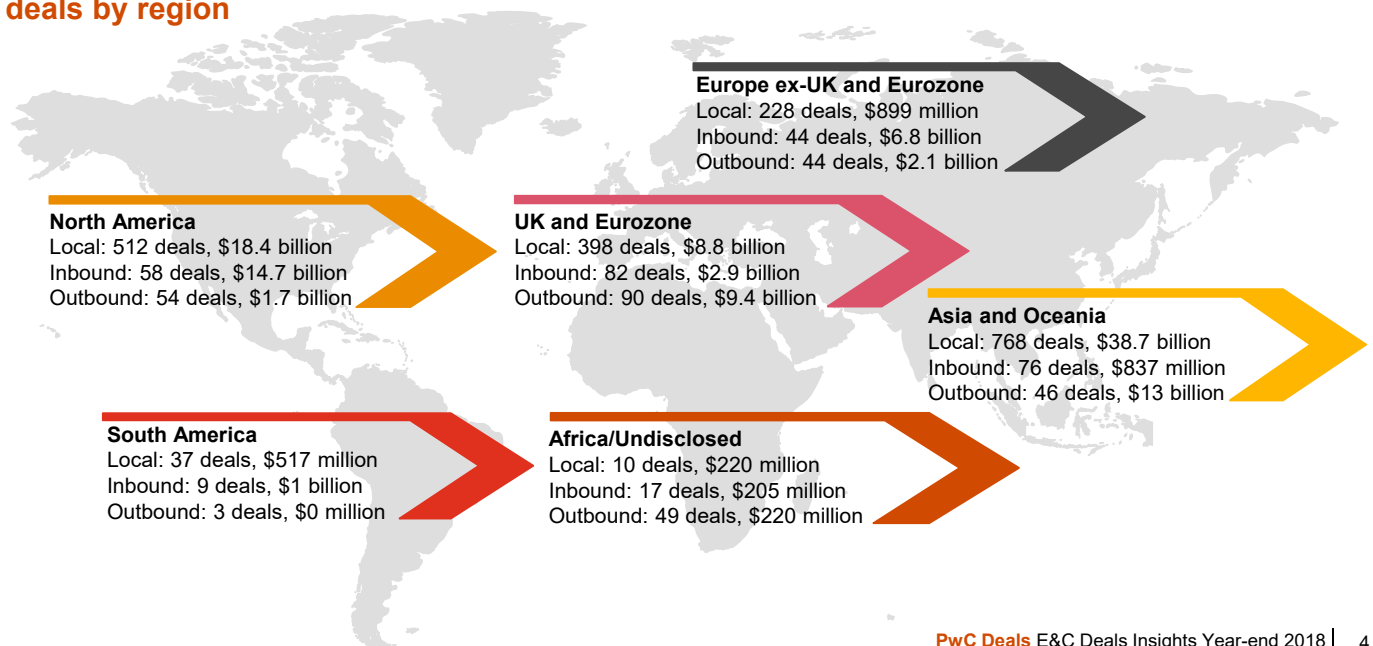
Share of deal volume by target region



Share of deal value by target region



E&C deals by region



E&C top deals 2018 and outlook

Key announced transactions (2018)

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value*	Category
08/31/18	Sydney Motorway Corp. - WestConnex Motorway	Australia	Investor Group	Australia	Completed	6,755	Construction
12/17/18	ABB Ltd.-Power Systems Division	Switzerland	Hitachi Ltd.	Japan	Pending	6,400	Civil Engineering
03/26/18	USG Corp.	United States	Gebr Knauf KG	Germany	Pending	6,102	Construction Materials Manufacturing
10/21/18	Jacobs Engineering Group Inc.-Energy, Chemicals & Resources Division	United States	WorleyParsons Ltd.	Australia	Pending	3,300	Civil Engineering
04/27/18	SRS Distribution Inc.	United States	Leonard Green & Partners LP	United States	Pending	3,000	Construction Materials Manufacturing
03/14/18	Hochtief AG	Germany	Atlantia SpA	Italy	Completed	2,721	Construction
09/10/18	Engility Holdings Inc.	United States	Science Applications International Corp.	United States	Pending	2,395	Civil Engineering
05/20/18	Century Textiles & Industries Ltd.-Cement Business	India	UltraTech Cement Ltd.	India	Pending	1,234	Construction Materials Manufacturing
05/17/18	Imerys Toiture SASU	France	Lsf10 Impala Investments SARL	Luxembourg	Completed	1,181	Construction Materials Manufacturing
02/12/18	Binani Cement Ltd.	India	UltraTech Cement Ltd.	India	Completed	1,118	Construction Materials Manufacturing

Source: Thomson Reuters and other publicly available sources;

*In Million USD

E&C sector outlook

Deal activity in the E&C sector was mixed during 2018. While the volume growth was impacted due to heightened trade tensions, value remained strong. A favorable tax policy leading to higher valuation multiples pushed the deal value. Strong underlying sector fundamentals will continue to keep the deal momentum favorable, combined with other sector influencers including demand infrastructure investment leading to “mega” projects, increasing emphasis on technologies to build smart cities, favorable debt markets, and strong corporate balance sheets and record level of available dry powder. Further, the proposed \$1.5 trillion infrastructure bill in the US has bipartisan support from Republicans and Democrats, setting the stage for potential actions. This is likely to push more private investments in 2019 as the buyers target long-term steady cash flows and less volatility.

While the sector fundamentals and broader market conditions remain favorable, ongoing trade tensions, and the knock-on impact they may have, will influence 2019 M&A levels.

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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 engineering and construction 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 October 1, 2015 and December 31, 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.