



## M&A trends and drivers

2017 Engineering and Construction Conference

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# Agenda

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## Module/Topic

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### M&A Trends and Drivers

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- Macro perspective
  - Engineering & construction industry
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### M&A workshop – Key takeaways

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- Financial due diligence
  - Tax due diligence
  - IT due diligence
  - Project due diligence
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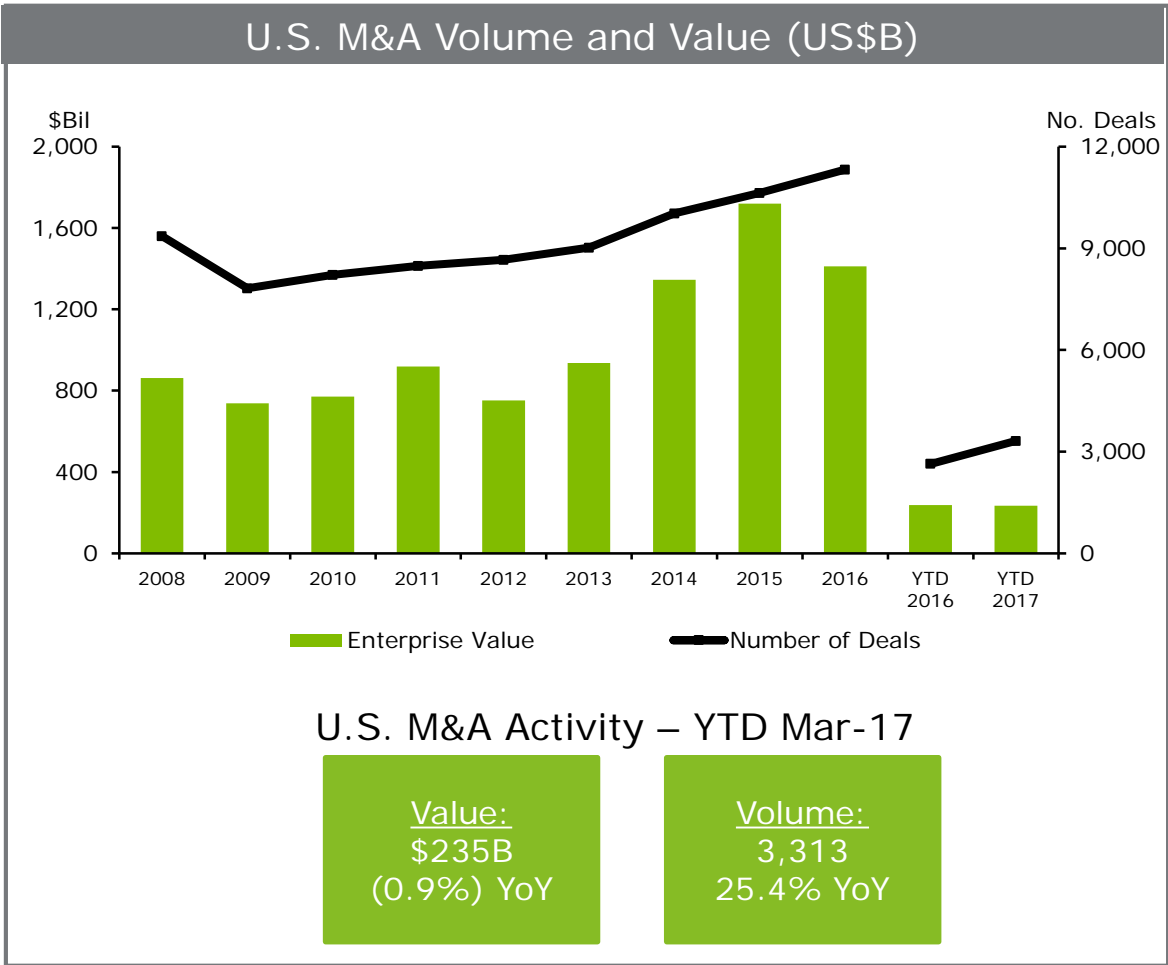
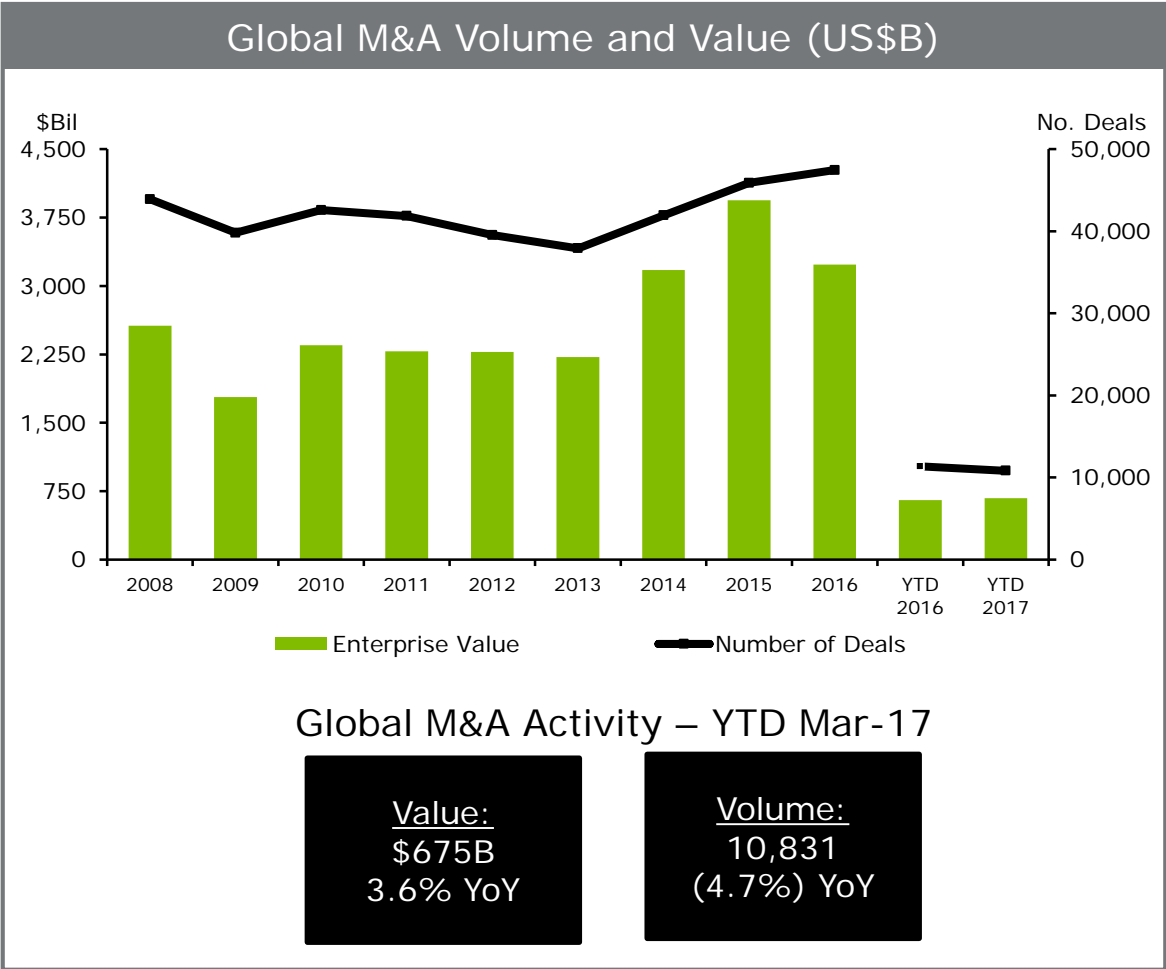
### Q&A

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# M&A Trends and drivers

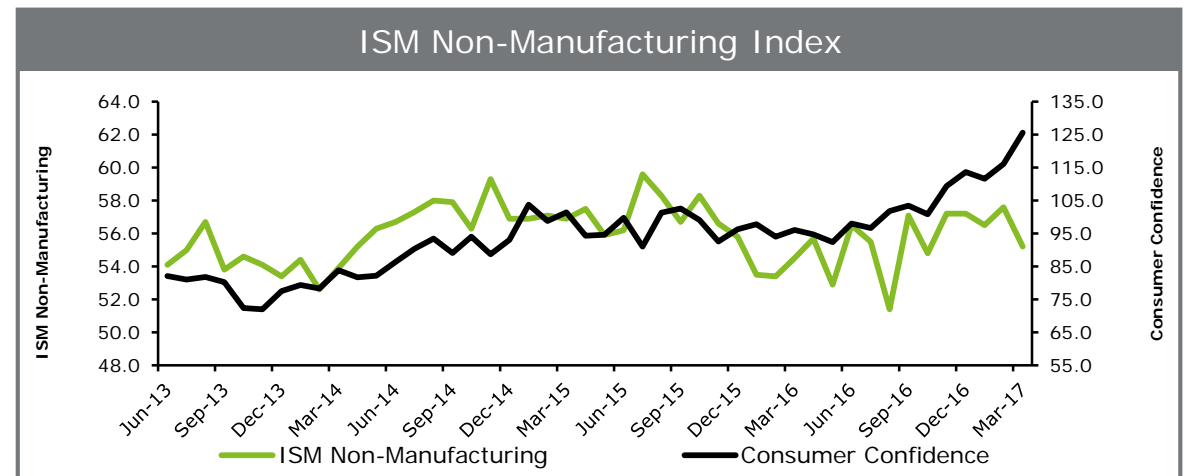
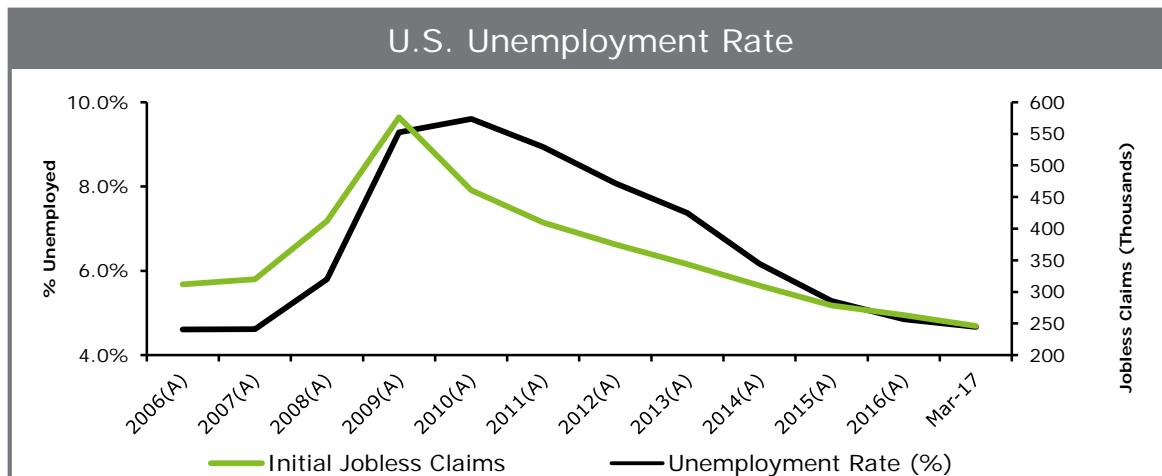
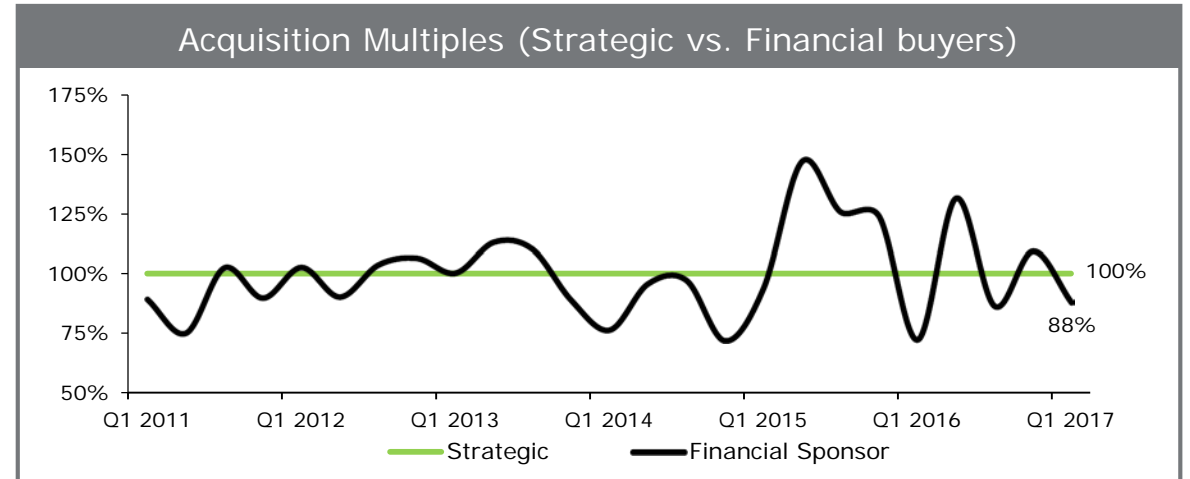
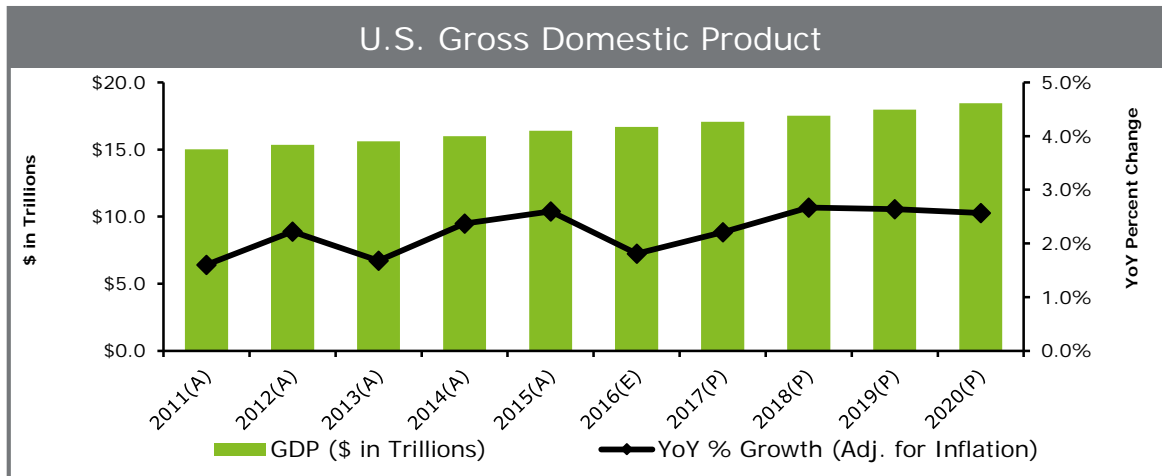
Macro perspective

# Current M&A markets



Source: Thompson Financial  
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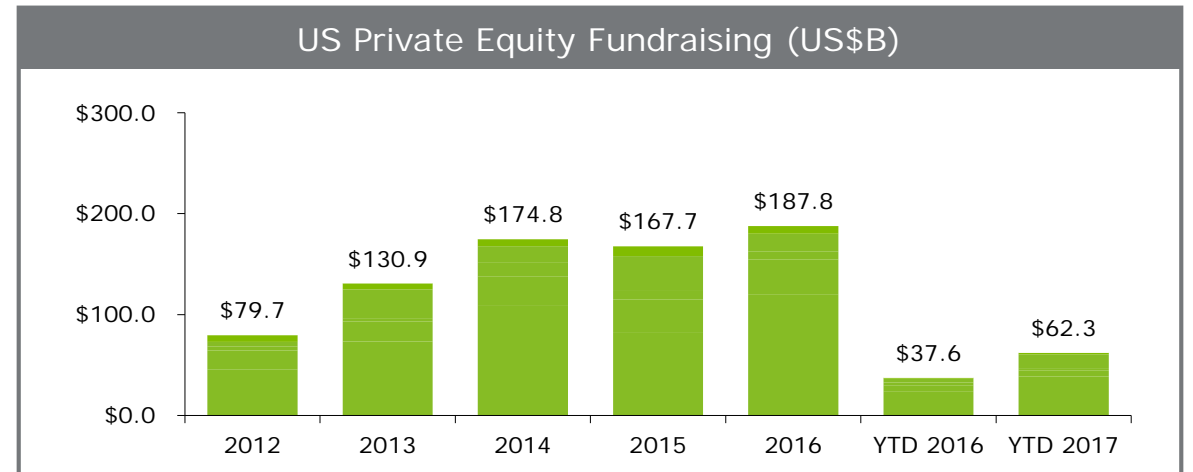
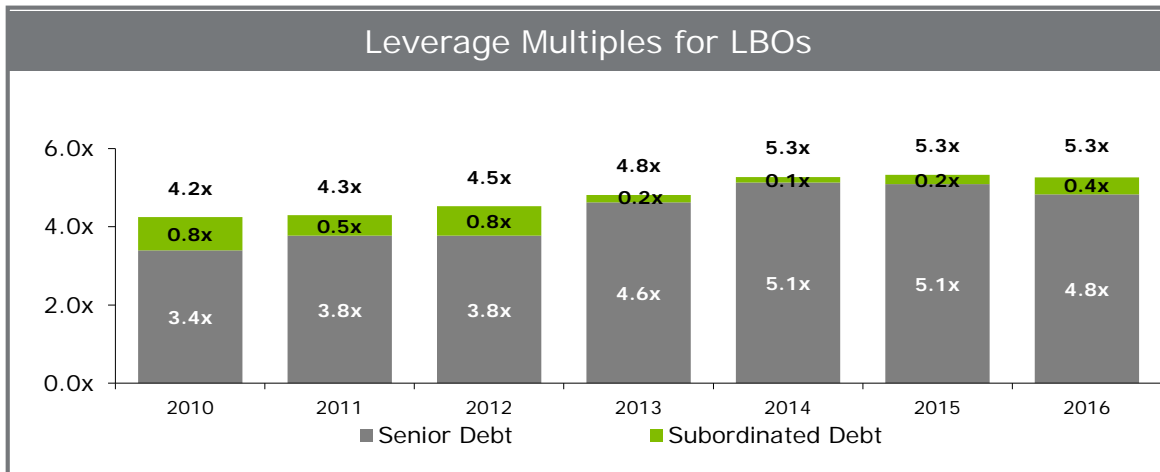
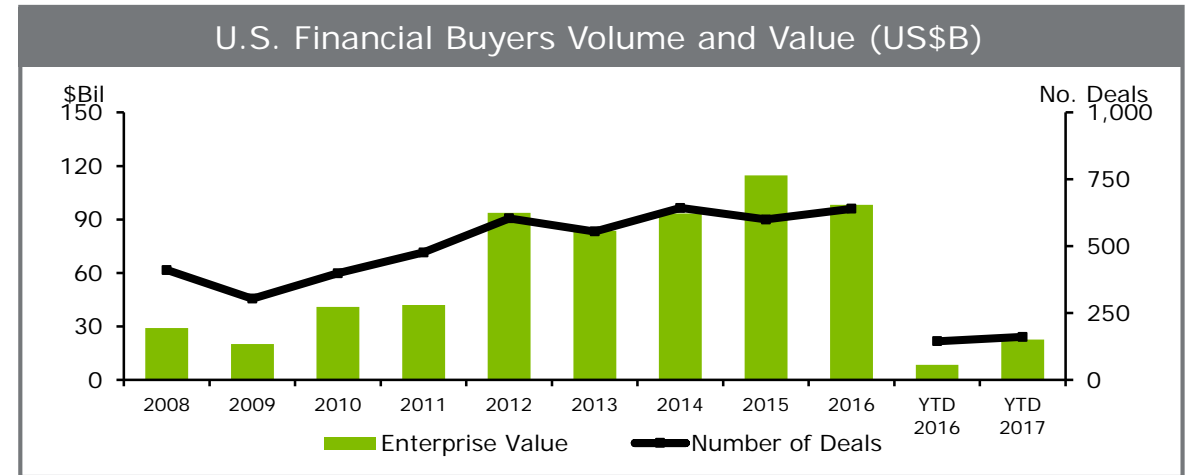
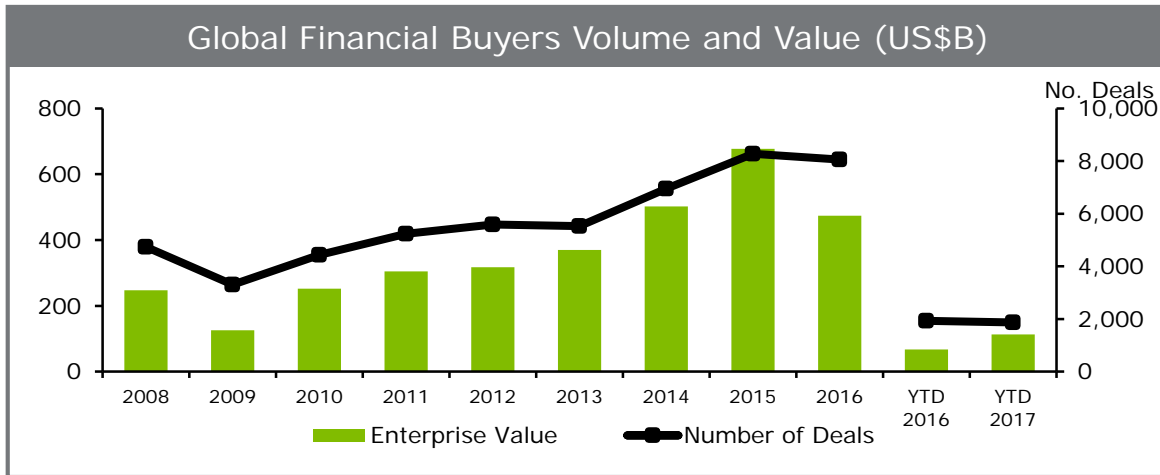
# Select Macro considerations



Source: Capital IQ

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# Financial buyers activity



Source: Thompson Financial  
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# Deloitte 2016 M&A Trends Report

Using survey responses from 1000 executives from U.S. corporations and private equity firms, the report provides insights into future M&A activity as well as deal dynamics. Key findings from the survey include the following:

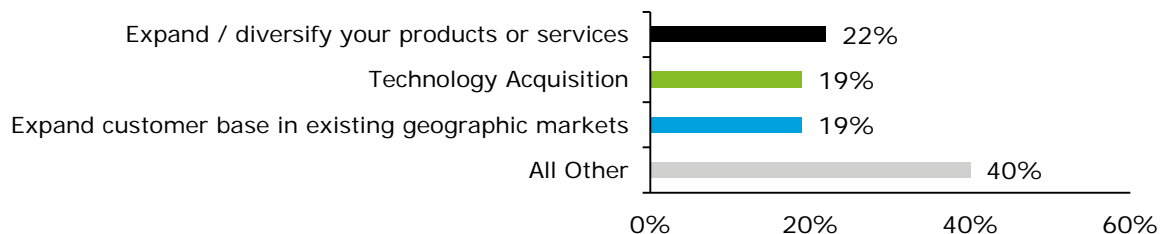
- **M&A momentum continues**

Respondents expect the pace of M&A activity to sustain or ramp up from 2016 levels in the next 12 months



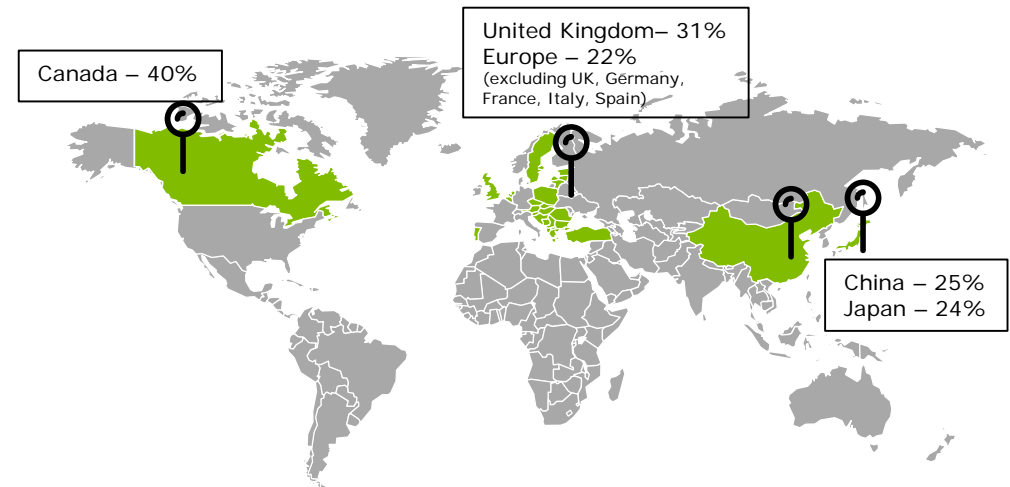
- **Increased technology focus**

Acquisition of technology assets surged in importance as a top strategic driver of M&A, tying for second with expanding customer bases.



- **Continued effort to expand customer bases via overseas expansion**

More than 90% of respondents say at least some of their company's M&A will involve targets in foreign markets, up from 77% in mid-year 2016



- **Exits and divestitures poised to grow**

- About 72% of PEI respondents reported they anticipate pursuing an exit in the next 12 months.
- About 73% of corporate respondents reported they anticipate divesting a business in 2017.

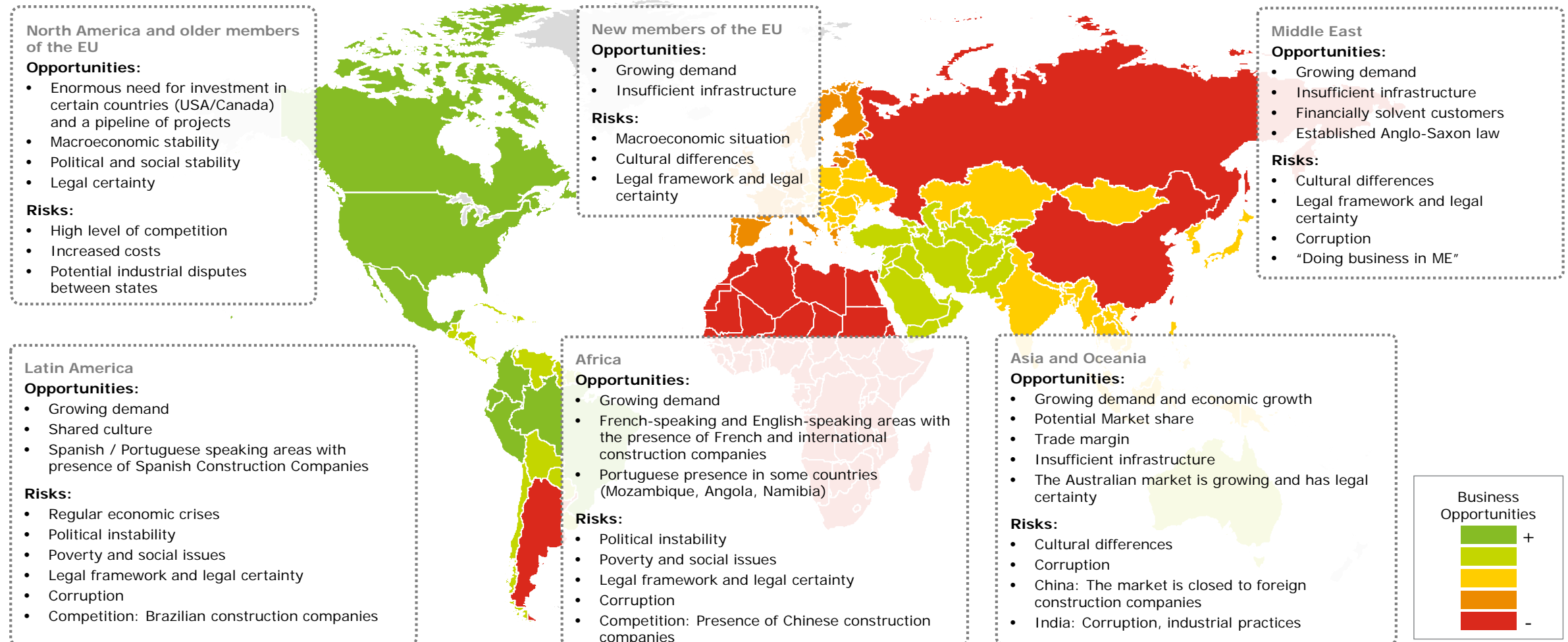


# **M&A Trends and drivers**

Engineering & construction industry

# Specific industry knowledge

An in-depth analysis of opportunities and risks in each market shows that the level of attractiveness for infrastructure companies varies significantly by geography.



# Specific industry knowledge (cont.)

The construction market is projected to grow in the coming year for several reasons:

## Factors driving the boom in infrastructure spending

Urban development and growing population	Aging infrastructure	Global energy requirements	New technologies	BRIC "insatiable demand"	Years of under-investment
<ul style="list-style-type: none"> <li>Infrastructure will facilitate the migration from rural to urban life in developing economies</li> </ul>	<ul style="list-style-type: none"> <li>Aging infrastructure in developed economies is in need of replacement, upgrade or repair</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure will accommodate growing energy demand and alternative energies</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure is required to compete in an increasing globalized marketplace</li> </ul>	<ul style="list-style-type: none"> <li>Developing and rapidly growing countries will require infrastructure development</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure will be used as a catalyst for economic growth as capital markets recover</li> </ul>

## Assets constructed as a result of the boom

Energy and utilities	Transportation	Major events infrastructure	Telecommunications	Other
<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Electricity</li> <li>Alternative energy</li> <li>Water</li> </ul>	<ul style="list-style-type: none"> <li>Toll roads, tunnels, bridges</li> <li>Railways, mass transit</li> <li>Car parks</li> <li>Ports</li> <li>Airports</li> </ul>	<p>Infrastructure relates to:</p> <ul style="list-style-type: none"> <li>Olympic Games</li> <li>Pan Am Games</li> <li>Other</li> <li>World Cup</li> <li>World Expo</li> <li>Other major events</li> </ul>	<ul style="list-style-type: none"> <li>Wireless networks</li> <li>Cable systems</li> </ul>	<ul style="list-style-type: none"> <li>Health care facilities</li> <li>Education facilities</li> <li>Prisons</li> </ul>

Expected I&CP spending up to 2030 <sup>(1)</sup>

Global infrastructure market spending

The Americas



EMEA



Asia Pacific

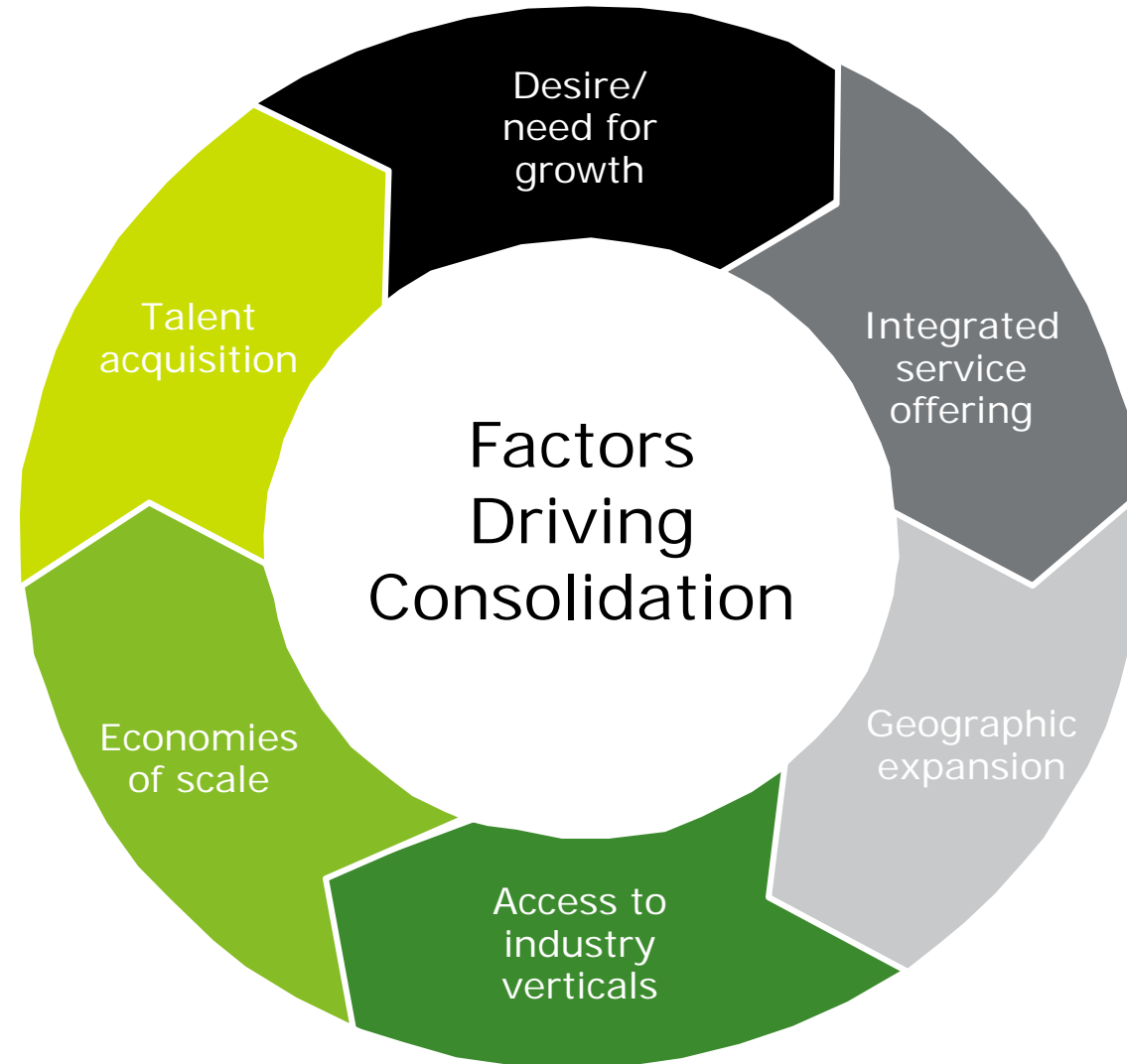


Global Market



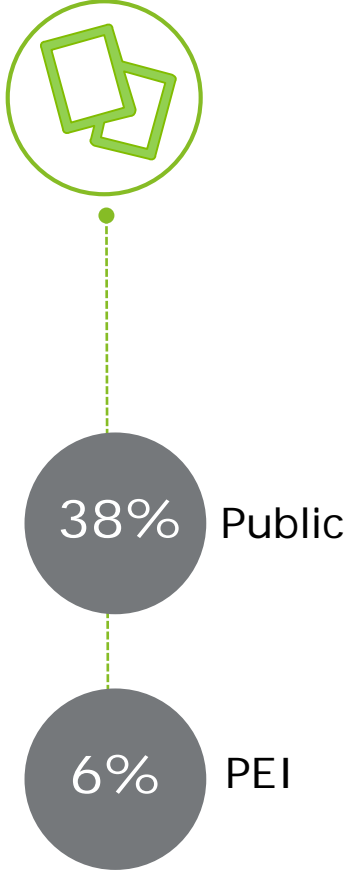
(1) Estimate based on World Bank projections  
 \* More than 70% of infrastructure investment up to 2030 in developing countries  
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# Industry consolidation continues



# Top 50 Design (2017)

Top 50 Design Firms	
1	AECOM
2	JACOBS
3	CH2M
4	FLUOR CORP.
5	TETRA TECH INC.
6	CB&I
7	AMEC FOSTER WHEELER
8	HDR
9	KBR
10	STANTEC INC.
11	BECHTEL
12	PARSONS
13	ARCADIS NV
14	WSP   PARSONS BRINCKERHOFF
15	BLACK & VEATCH
16	BURNS & MCDONNELL
17	INTERTEK GROUP PLC
18	GENSLER
19	HNTB COS.
20	GOLDER ASSOCIATES CORP.
21	KIMLEY-HORN
22	LEIDOS HOLDINGS, INC.
23	TRC COS. INC.
24	CDM SMITH
25	BUREAU VERITAS SA
26	LOUIS BERGER
27	WORLEYPARSONS GROUP INC.
28	WOOD GROUP
29	GHD INC.
30	TERRACON CONSULTANTS INC.
31	PERKINS+WILL
32	MICHAEL BAKER INTERNATIONAL
33	S&B ENGINEERS AND CONSTRUCTORS LTD.
34	MOTT MACDONALD
35	EXP US SERVICES INC.
36	SARGENT & LUNDY LLC
37	ATKINS NORTH AMERICA
38	CDI CORP.
39	HOK
40	STV GROUP INC.
41	KIEWIT CORP.
42	POWER ENGINEERS INC.
43	FUGRO
44	CARDNO
45	HKS
46	T.Y. LIN INTERNATIONAL
47	DEWBERRY
48	BROWN AND CALDWELL
49	IBI GROUP
50	ARUP



Note: Green shading denotes publicly traded entities or entities with a publicly-traded parent company; Gray shading denotes private equity owned entities.

Source: Engineering News-Record

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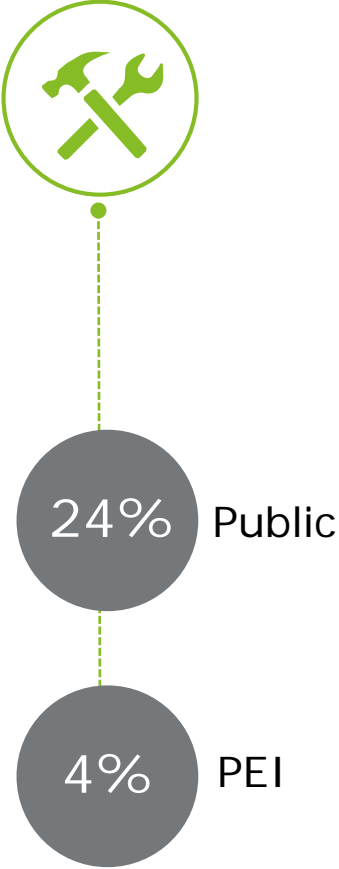
# Top 50 Contractors (2017)

Top 50 Contractors	
1	BECHTEL
2	FLUOR CORP.
3	THE TURNER CORP.
4	CB&I
5	AECOM
6	KIEWIT CORP.
7	SKANSKA USA INC.
8	PCL CONSTRUCTION ENTERPRISES INC.
9	TUTOR PERINI CORP.
10	THE WHITING-TURNER CONTRACTING CO.
11	THE WALSH GROUP LTD.
12	CLARK GROUP
13	GILBANE BUILDING CO.
14	BALFOUR BEATTY
15	STRUCTURE TONE
16	DPR CONSTRUCTION
17	SWINERTON INC.
18	MORTENSON CONSTRUCTION
19	HENSEL PHELPS
20	MCCARTHY HOLDINGS INC.
21	JACOBS
22	ZACHRY GROUP
23	JE DUNN CONSTRUCTION GROUP
24	LENDLEASE GROUP
25	HOLDER CONSTRUCTION CO.
26	SUFFOLK CONSTRUCTION CO.
27	TURNER INDUSTRIES GROUP LLC
28	GRANITE CONSTRUCTION INC.
29	BARTON MALOW CO.
30	BRASFIELD & GORRIE LLC
31	DRAGADOS NORTH AMERICA
32	KBR
33	AUSTIN INDUSTRIES
34	ALBERICI-FLINTCO
35	PRIMORIS SERVICES CORP.
36	MICHELS CORP.
37	CHINA CONSTRUCTION AMERICA
38	CLAYCO INC.
39	THE YATES COS. INC.
40	DEVCON CONSTRUCTION INC.
41	BLACK & VEATCH
42	OHL USA INC.
43	WEBCOR CONSTR. DBA WEBCOR BUILDERS
44	AMEC FOSTER WHEELER
45	PERFORMANCE CONTRACTORS INC.
46	WOOD GROUP
47	MANHATTAN CONSTRUCTION GROUP
48	HATHAWAY DINWIDDIE CONSTRUCTION CO.
49	HOFFMAN CORP.
50	WALBRIDGE

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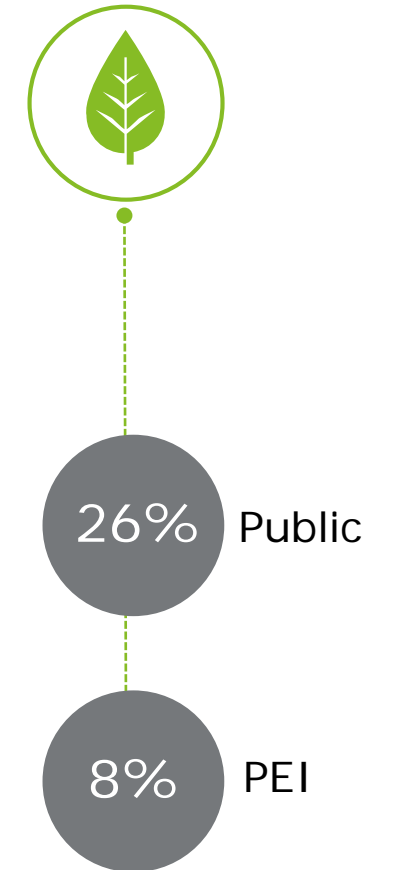
# Top 50 Environmental Firms (2016)

Top 50 Environmental Firms	
1	AECOM
2	CH2M
3	BECHTEL
4	VEOLIA NORTH AMERICA
5	CLEAN HARBORS INC.
6	TETRA TECH INC.
7	FLUOR CORP.
8	ARCADIS NV
9	MWH GLOBAL
10	SUEZ SA
11	AMEC FOSTER WHEELER
12	CDM SMITH
13	HDR
14	ENV. RESOURCES MANAGEMENT INC. (ERM)
15	BATTELLE
16	BLACK & VEATCH
17	THE WALSH GROUP LTD.
18	STANTEC INC.
19	CB&I
20	KIEWIT CORP.
21	NORTHSTAR GROUP SERVICES INC.
22	GARNEY HOLDING CO.
23	PARSONS CORP.
24	LAYNE CHRISTENSEN CO.
25	GOLDER ASSOCIATES
26	GHD
27	TRADEBE ENVIRONMENTAL SERVICES
28	AEGION CORP.
29	RAMBOLL ENVIRON INC.
30	WSP   PARSONS BRINCKERHOFF
31	ICF INTERNATIONAL
32	ANTEA GROUP
33	BROWN AND CALDWELL
34	MCCARTHY HOLDINGS INC.
35	WEEKS MARINE INC.
36	PCL CONSTRUCTION ENTERPRISES INC.
37	LOUIS BERGER
38	TRC COS. INC.
39	BARNARD CONSTRUCTION CO. INC.
40	LEIDOS
41	WORLEYPARSONS
42	PC CONSTRUCTION CO.
43	GEOSYNTEC CONSULTANTS INC.
44	LYLES CONSTRUCTION GROUP
45	KOKOSING INC.
46	BOWEN
47	ALBERICI/FLINTCO
48	CAROLLO ENGINEERS INC.
49	NATIONAL RESPONSE CORP.
50	BURNS & MCDONNELL

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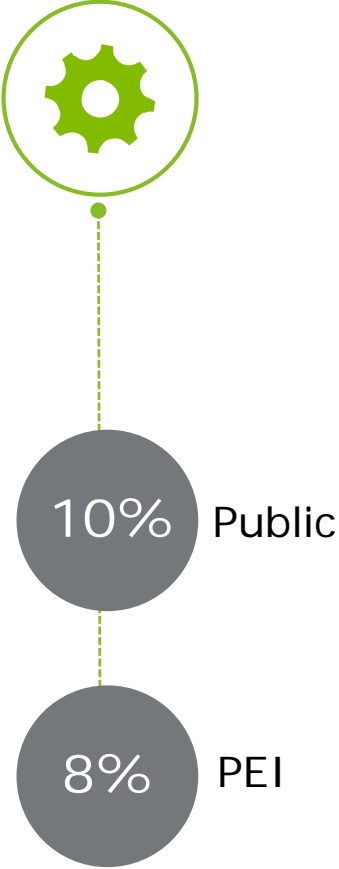
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# Top 50 Specialty Contractors (2016)

Top 50 Specialty Contractors	
1	QUANTA SERVICES INC.
2	EMCOR GROUP INC.
3	MASTEC INC.
4	BRAND ENERGY & INFRASTRUCTURE SERVICES INC.
5	API GROUP INC.
6	SAFWAY GROUP
7	THE BROCK GROUP
8	HENKELS & MCCOY INC.
9	COMFORT SYSTEMS USA
10	PERFORMANCE CONTRACTING GROUP INC.
11	ROSENDIN ELECTRIC
12	MYR GROUP INC.
13	MDU CONSTRUCTION SERVICES GROUP INC.
14	ACCO ENGINEERED SYSTEMS
15	MVERGE
16	TEAM INDUSTRIAL SERVICES
17	CUPERTINO ELECTRIC INC.
18	BAKER CONCRETE CONSTRUCTION INC.
19	MMR GROUP INC.
20	NORTHSTAR GROUP SERVICES INC.
21	M.C. DEAN INC.
22	CENTIMARK CORP.
23	MCKINSTRY
24	CECO CONSTRUCTION GROUP
25	SOUTHLAND INDUSTRIES
26	HAYWARD BAKER INC.
27	FIVE STAR ELECTRIC CORP.
28	TDINDUSTRIES INC.
29	STEELFAB INC.
30	BERGELECTRIC CORP.
31	SCHUFF STEEL
32	CONTI CORP.
33	HELIX ELECTRIC INC.
34	BOND BROTHERS INC.
35	THE NEWTRON GROUP
36	UNIVERSAL PLANT SERVICES INC.
37	ALDRIDGE ELECTRIC INC.
38	FAITH TECHNOLOGIES INC.
39	HARRIS COS.
40	STRUCTURAL GROUP
41	MORROW-MEADOWS CORP.
42	LITHKO CONTRACTING LLC
43	THE BRANDT COS.
44	KEYSTONE CONCRETE PLACEMENT
45	HUNT ELECTRIC CORP.
46	REDWOOD ELECTRIC GROUP
47	THE STATE GROUP INC.
48	BARNHART CRANE AND RIGGING CO.
49	CACHE VALLEY ELECTRIC. CO.
50	LIMBACH FACILITY SERVICES



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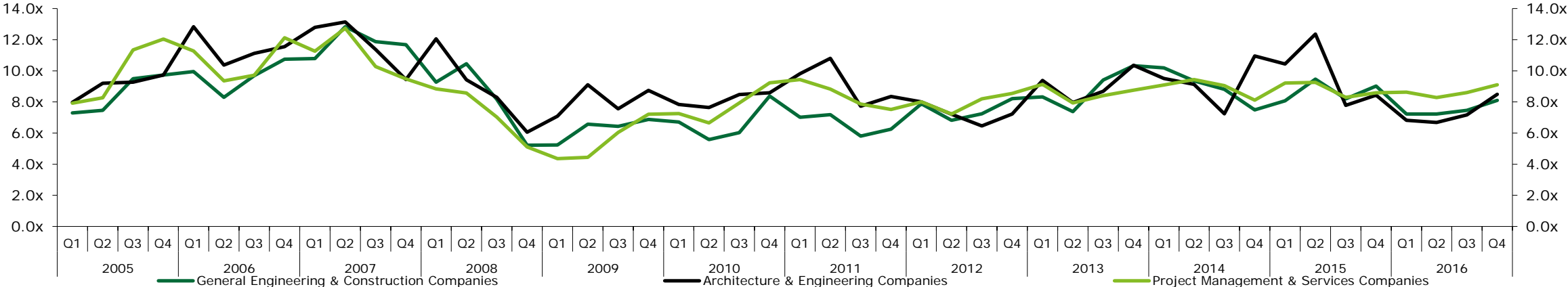
# Select Relevant Public Comparables

## Industry Breakdown & Trading Statistics

Sector	Number of Companies	% of 52 Week High	Median Revenue CAGR (3 Yr)	Median LTM EBITDA	Median EBITDA Margin	Median Enterprise Value (\$)	Last Twelve Months		NTM
							EV/ Revenue	EV/ EBITDA	EV/ EBITDA
General Engineering & Construction Companies	25	90.2 %	1.1 %	\$161.5	7.2 %	\$1,900.3	0.6 x	9.3 x	7.0 x
Architecture & Engineering Companies	11	95.5	2.3	248.8	8.4	3,445.0	0.7	9.1	6.9
Project Management & Services Companies	19	92.2	1.5	289.5	7.5	4,053.0	0.8	9.6	8.8
<b>Comparable Public Companies</b>	<b>36</b>	<b>92.8 %</b>	<b>1.7 %</b>	<b>\$205.1</b>	<b>7.8 %</b>	<b>\$2,672.7</b>	<b>0.7 x</b>	<b>9.2 x</b>	<b>7.0 x</b>

(\$ in Millions)

## Historical Trading Multiples



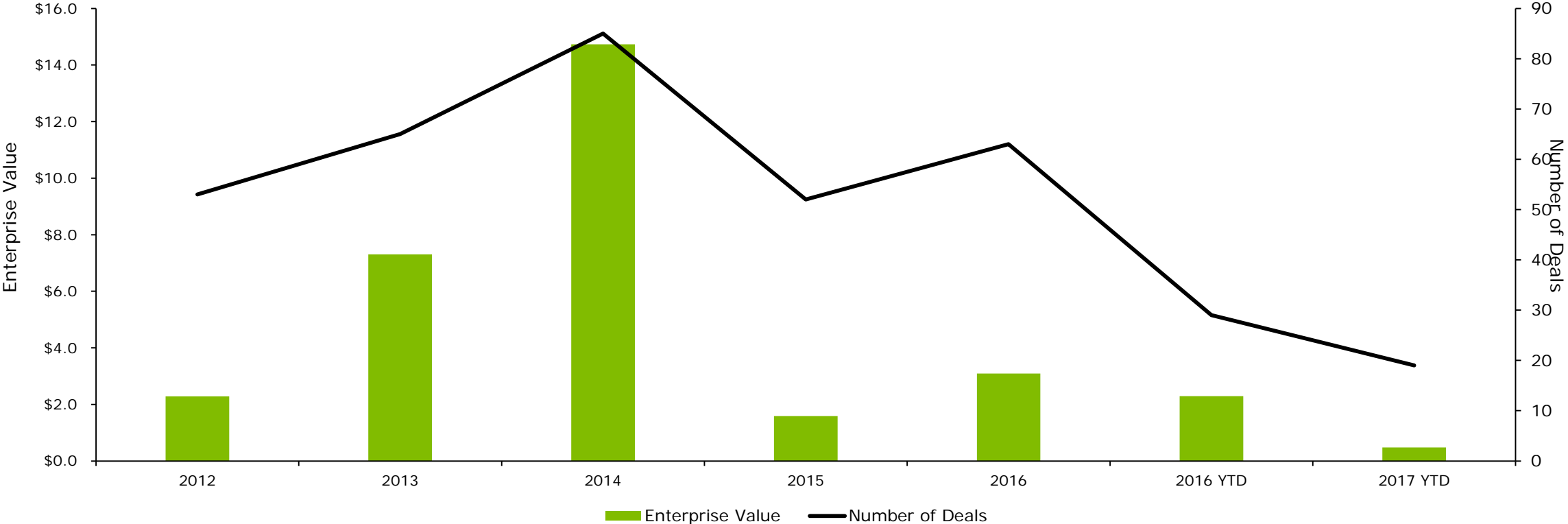
Source: Capital IQ  
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# Engineering & construction M&A Transactions

## Top 50 Lists – All companies

### M&A volume and value

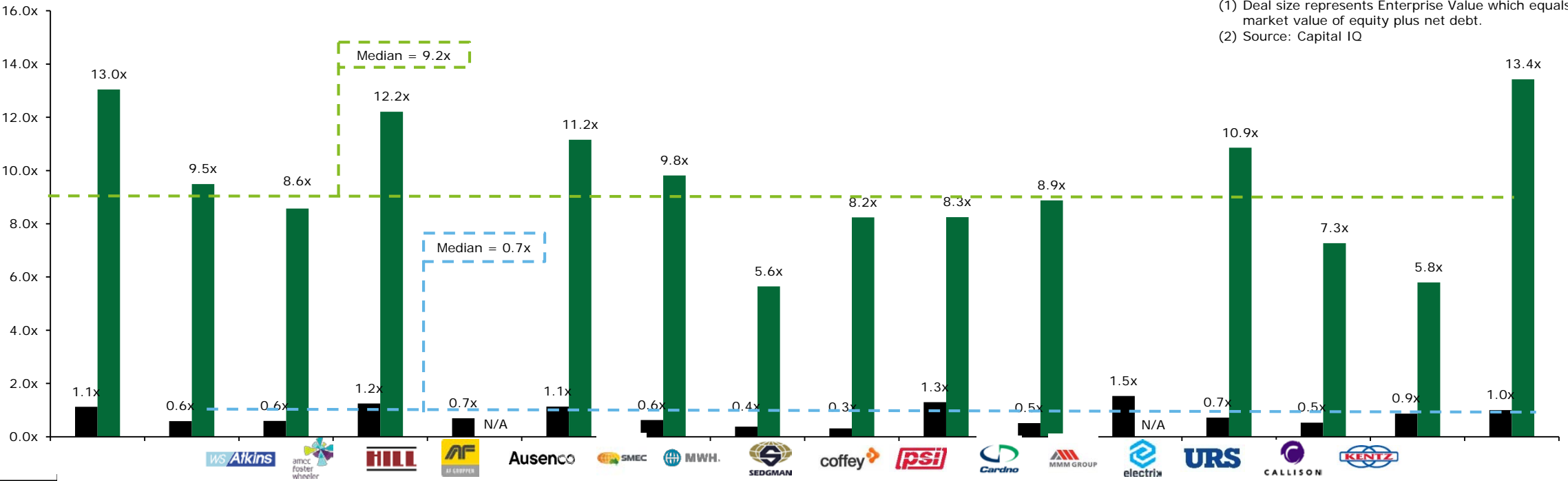
(\$ in Billions)



Source: Capital IQ  
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# Select relevant transaction multiples

Related M&A Activity has led to median transaction multiples of 9.2x EV/LTM EBITDA and 0.7x EV/LTM Revenue.

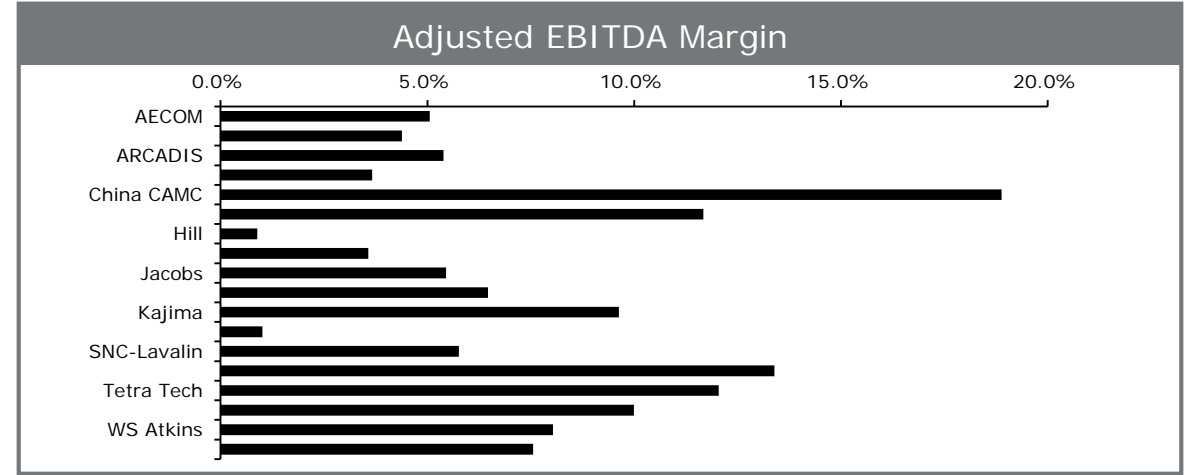
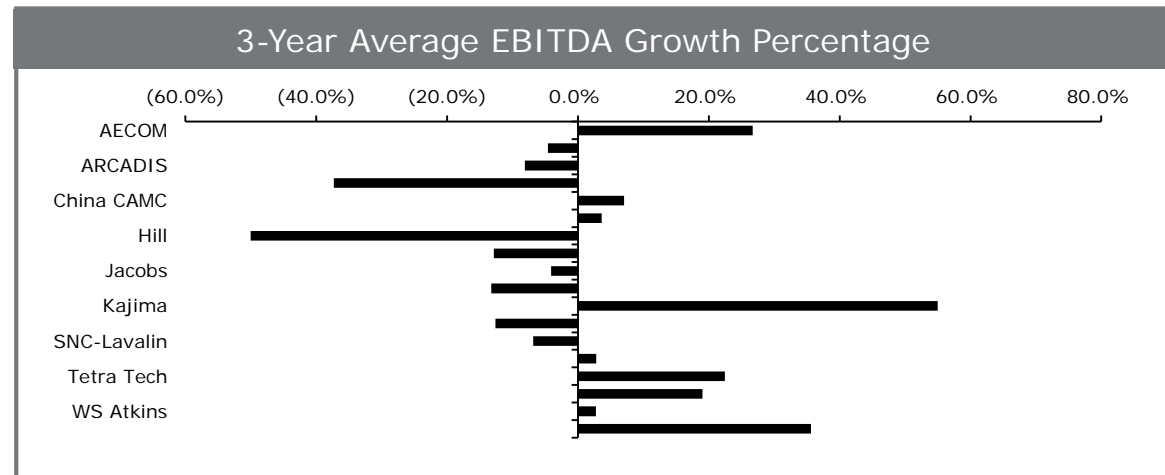
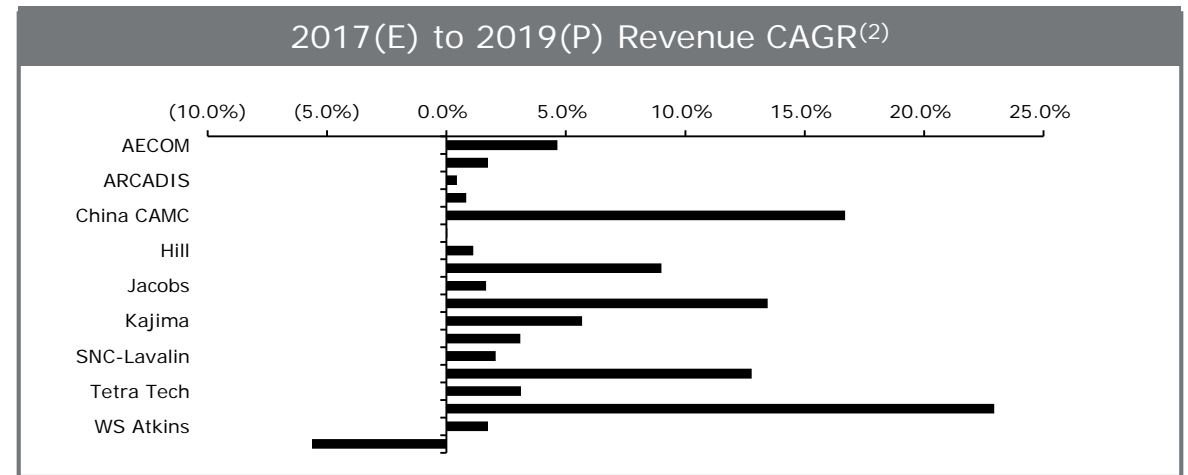
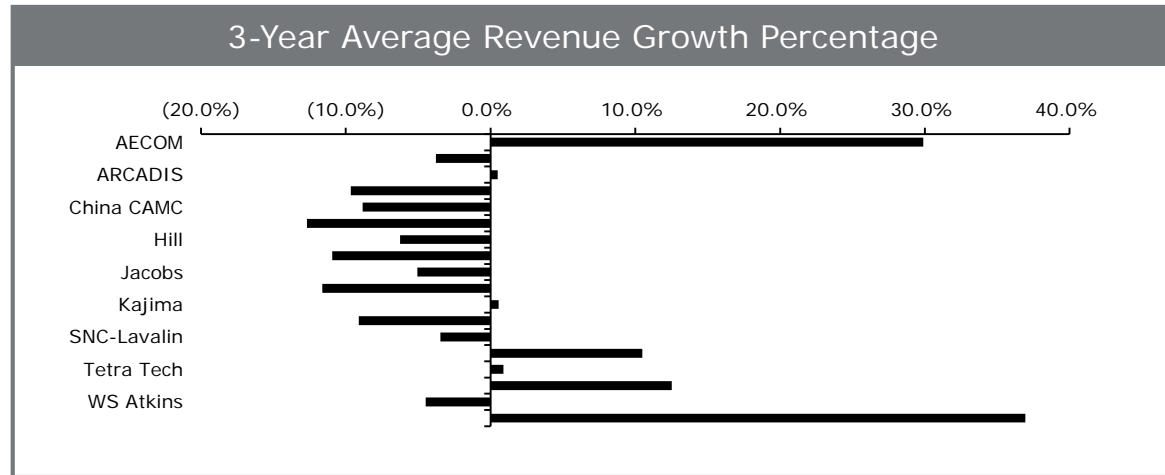


(1) Deal size represents Enterprise Value which equals market value of equity plus net debt.  
 (2) Source: Capital IQ

Date	Pending	Pending	Pending	Mar 2017	Sept 2016	Aug 2016	May 2016	Mar 2016	Jan 2016	Nov 2015	Nov 2015	Oct 2015	Oct 2014	Oct 2014	Oct 2014	Aug 2014
Acquiror	SNC-Lavalin Group Inc.	John Wood Group plc	DC Capital Partners	Flyind AS; Constructio AS	Resource Capital Funds	Surbana Jurong Private Limited	Stantec Inc.	CIMIC Group Pty	Tetra Tech, Inc.	Intertek Group plc	Crescent Capital	WSP Global	VINCI Energies	AECOM Tech. Corp.	ARCADIS NV	SNC-Lavalin Group Inc.
Size \$MM:	\$2,734.5	\$4,049.5	\$366.5	\$1,748.0	\$117.2	\$313.1	\$793.0	\$93.5	\$125.7	\$330.0	\$517.1	\$309.9	\$123.3	\$5,584.3	\$144.9	\$1,664.0
Target / Acquiror Location	U.K. / Canada	U.K. / U.K.	U.S. / U.S.	Norway / Norway	Aust. / U.S.	Aust. / Sing.	U.S. / Canada	Aust. / Aust.	Aust. / U.S.	U.S. / U.K.	Aust. / U.K.	Canada / Canada	Aust. / France	U.S. / U.S.	U.S. / Neth.	Channel Islands / Canada

# Income statement benchmarking

**Footnotes:**  
 (1) Data as of 4/11/2017  
 (2) Source: Capital IQ



**Q&A**

# M&A Workshop

Key takeaways

# Due Diligence best practices

Key focus area	Best practices
Planning and process	<ul style="list-style-type: none"><li>• 80:20 rule — “must have” vs. “nice to have”</li><li>• Establish clear and consistent process across all deal types</li><li>• Select functional team participants that are “up-to-speed”</li><li>• Define regularly scheduled checkpoints to assess progress against milestones</li><li>• Utilize institutionalized learning — building on past success</li><li>• Conduct thorough due diligence and link it to other M&amp;A activities</li></ul>
Process efficiency	<ul style="list-style-type: none"><li>• Set deal goals and objectives focused on strategy</li><li>• Focus on the most critical transaction elements</li><li>• Maintain control through setting milestones, benchmarks and deadlines</li><li>• Establish clear team roles, responsibilities and central command</li><li>• Coordinate information gathering and sharing and take one team approach with communication across teams and advisors</li><li>• Complete real time problem identification and resolution</li><li>• Translate due diligence findings into clear integration plans and objectives</li></ul>
Reporting	<ul style="list-style-type: none"><li>• Streamline reporting from internal teams and external advisors</li><li>• Accumulate executive summary from each functional team</li><li>• Complete final report summarizing critical issues and observations</li><li>• Integrate results into negotiation strategy and integration planning</li></ul>

## Due Diligence best practices (cont.)

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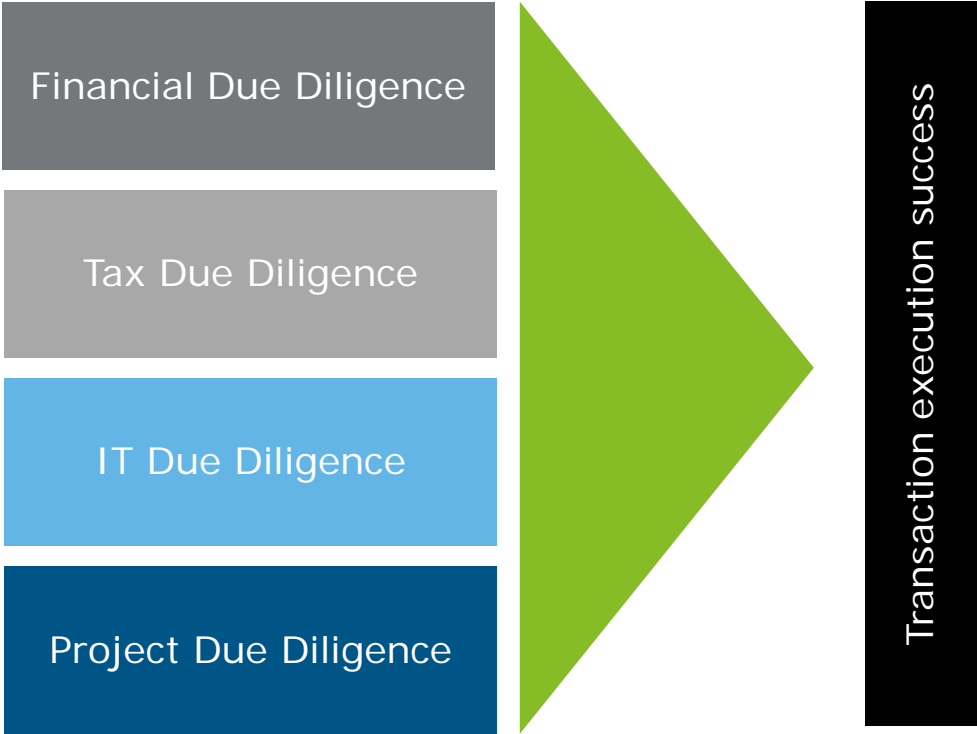
Key focus area	Best practices
Tools	<ul style="list-style-type: none"><li>• Diligence/integration playbook</li><li>• Standard information request lists</li><li>• Functional instructions</li><li>• Standardized reporting templates</li></ul>
Valuation	<ul style="list-style-type: none"><li>• Establish disciplined approach to strategic decision making, including accretion/dilution analysis, quantification of diligence findings and use of standard models</li><li>• Perform rigorous analysis of synergies to identify probable outcomes and the associated likelihood of achieving strategic value</li><li>• Consider structuring alternatives to improve the likelihood of achieving the expected strategic objectives and value</li><li>• Develop risk map</li><li>• Translate value into deal terms</li><li>• Avoid using the model to justify a pre-determined outcome</li><li>• Perform independent review</li></ul>

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# Due Diligence

## Workshop focus areas



# Key Takeaways / Focus Areas

## Financial Due Diligence

- **Quality of Earnings – Normalized EBITDA**

- Revenue recognition
- Impact of nonrecurring revenue
- Project lookback analyses
- Significant accounting policies
- One-time and nonrecurring expenses and reserve adjustments
- Pro forma adjustments – standalone costs, etc.
- Other cash flow considerations – capex needs

- **Other Quality of Earnings Analysis**

- Customer profitability
- Backlog trends
- Foreign exchange
- Organic vs acquired growth

- **Normalized Net Working Capital**

- Cash and debt free view
- Significant trends and seasonality
- Terms for significant customers/vendors
- Adequacy of allowances and reserves
- NWC “peg” analysis

- **Net Debt and Debt-Like Items**

- Employee related (pensions, deferred compensation, severance)
- Restructuring and self-insurance reserves
- Commitments and contingencies

- **Purchase agreement considerations**

- NWC and Net Debt definitions impact value
- Earn-outs

# Key Takeaways / Focus Areas

## Project Due Diligence

### WIP Analysis:

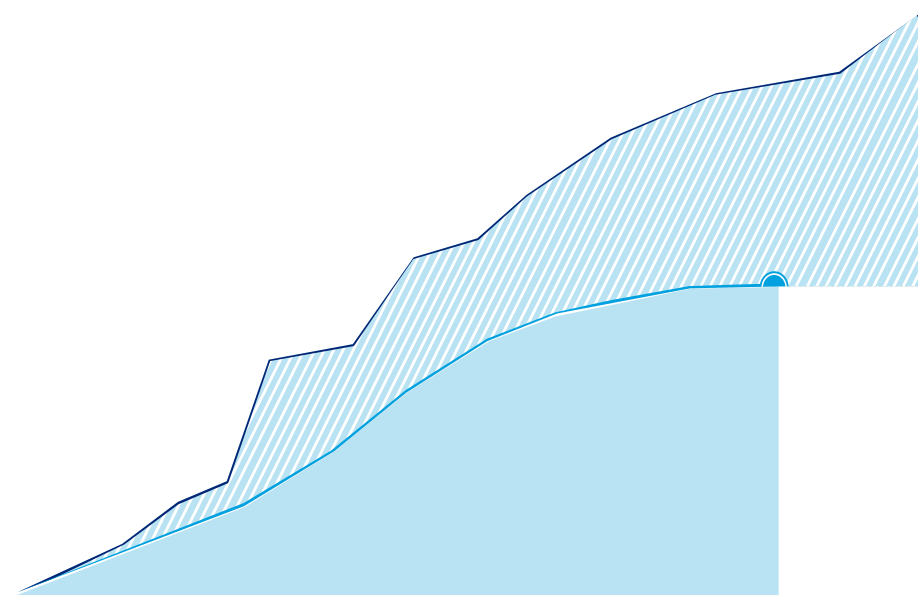
- Look at WIP over time, margin fade
- Include review of those projects outside sweet spot
- Include geographic risk areas (international)
- Include PM names for accountability

### Project Level:

- Phased approach due to limited time and personnel
- Identify key leader with operational experience to lead
- Involve trusted and experienced project managers, engineering managers, or superintendents
- Meet with head of risk (if available)

### Lessons Learned:

- Backlog not what communicated
- Entry into new geographic location more difficult impacting target
- Over-recognizing revenue, leaving out costs



# Key takeaways

## IT Due Diligence

- **What are the typical issues that you see for IT when looking at E&C deals?**
- **What are the best practices in preparing IT for an acquisition?**
  - **What about an integration?**
- **How often is it that a deal busts because of IT?**

# Key takeaways

## Tax Due Diligence

- **General**

- How to deal with other side, friend or foe?
- How are organizations modeling tax rates with prospective changes to the tax code?
- When to accommodate Sellers after the structure has been decided?
- Why does who owns us or the target matter?
- How to determine what country to include for non-US taxes?

- **Specific Tax Issues**

- What is an R&D Credit worth?
- Revenue Recognition?
- Indirect taxes, why do they always seem to be problematic?

**Q&A**



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