

# 2011 Engineering and Construction Outlook

## The Resurrection of Private Construction and the Pressure on Public

Many public funding programs are near expiration and many stimulus funds are tapering off. The American Reinvestment and Recovery Act (ARRA) is set to expire in September of this year. With Congress' sights set on deficit reduction as its primary objective, it does not seem likely that we will see a second round of similar stimulus dollars. The Build America Bond (BAB) program was not extended by the lame-duck Congress, as the absence of the federal subsidy and lack of access to the taxable market could create dislocation in the market.

In contrast, the private sector may have reached an inflection point as there is evidence of privately financed construction heading towards a rebound, albeit a slow one. Many public companies have disclosed positive recent momentum in bookings and backlogs in private-sector projects. Private nonresidential construction spending increased 0.9 percent in February, according to the April 1 report by the U.S. Census Bureau. Despite February's monthly performance, private nonresidential construction spending is down 13.2 percent from the same time last year. Nonresidential spending levels have been improving modestly and the year-over-year decline has moderated.

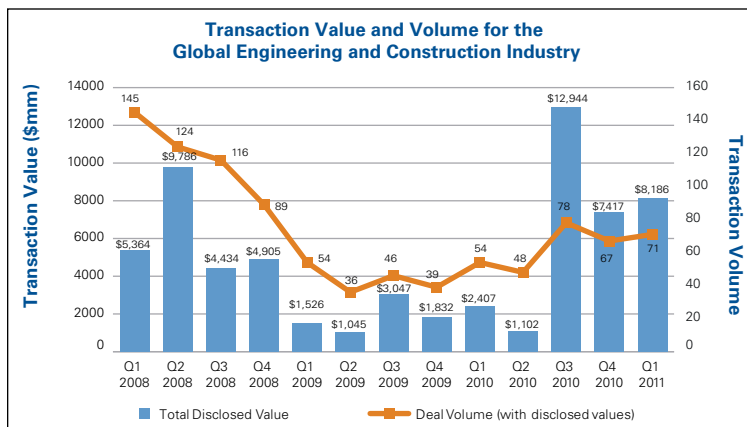


If the broader economy continues to recover at its current pace, the volume of privately financed construction will likely continue higher. The turnaround in the private nonresidential market is being driven by improved repair and refurbishment activity while new construction activity remains weak.<sup>1</sup> The abundance of commercial space that was built up during the housing boom is the primary catalyst of this trend. While the likelihood of a surge this year is low, there are assuring signs that the worst of private construction woes are behind us. The stabilization in the private construction market this year may set the stage for potential overall growth in 2012.

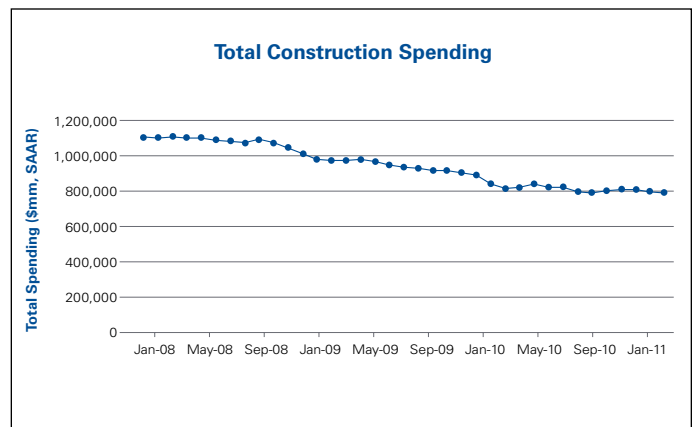
## ABI Signals Recovery

The Architectural Billings Index (ABI) is a monthly survey of architects indicating current activity levels. The ABI Index in February came in at 50.6, up from 50 in January, but down from 53.9 percent in December. A reading above 50 indicates an increase in demand for design services. The leading economic indicator of construction activity has been making its way into expansionary territory over the last few months. The ABI historically has led construction activity by 9–12 months.

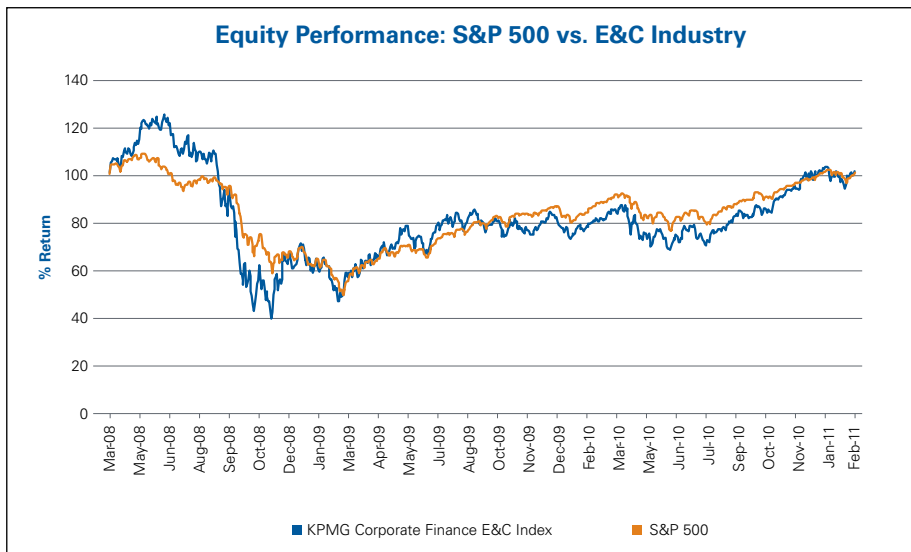
<sup>1</sup>BB&T Capital Markets Equity Research, February 18, 2011



Source: Capital IQ, March 31, 2011



Source: U.S. Census, March 1, 2011



Source: Capital IQ, March 31, 2011

### KPMG's Global Construction Survey Review

In the fifth KPMG Global Construction Survey recently released, KPMG spoke to 140 of the world's leading engineering and construction companies. The findings offer a revealing insight into decisions taken by contractors and their customers during this period of uncertainty, as well as providing a view into their future expectations.

Findings from the survey indicate that nearly half of respondents forecast rising backlogs in 2011 from pent-up demand; expansion into new services; or moving into additional geographies, such as the Middle East, Asia, Australia, Africa, and India. About 21 percent of respondents are confident in a significant increase in the outlook for backlogs in 2011 in Asia Pacific.

### Large Cash Positions, Leverage May Spark Acquisitions

Several major companies with significant cash balances may be looking to pay off debt, increase their dividend payout ratio, or make acquisitions. These improved cash balances, coupled with available credit and reasonable valuations, could spark acquisition activity this year.

AMEC plc, for example, has held an excess cash position of about US\$1 billion since 2007.<sup>2</sup> Fluor Corporation continues to maintain a strong balance sheet, positioning themselves for new acquisitions in the upstream markets. The company's cash balance stood at US\$2.1 billion at the end of 2010, up from US\$1.8 billion in the previous quarter.<sup>3</sup> Jacobs Engineering Group is another group with a large cash balance, recently stating an interest in acquisitions and highlighted upstream, government, and global infrastructure as areas of focus.<sup>4</sup> AECOM Technology Corporation, one of the most active acquirers last year, increased its long-term debt due to the strategic acquisitions the company made in 2010. AECOM's balance sheet remains strong, however, with a leverage profile below the company's target range of 1.5-2.0x. AECOM's management has indicated it would be willing to increase leverage up to 2.0x in order to make further acquisitions.<sup>5</sup>

### M&A and Capital Market Update

E&C companies have increasingly become more cautious and diligent about what they are buying. An emerging theme seems to be towards new

strategic opportunities rather than pure diversification. More so today than in the past, deals must fit strategically with existing operations to drive synergistic growth. Additionally, companies are structuring deals in new ways and handling the overall deal process differently as a result of the continued macro uncertainties. Many acquirers are avoiding large, broadly marketed targets, preferring to pursue companies that they know well, typically through an existing project or joint venture relationship. The exception being certain cases that involve a high-profile, sizable asset. The trend towards these off-market deals, where the buyer proactively identifies and approaches the target, has brought about a more strategic M&A landscape.

Global M&A activity in the engineering and construction industry for Q1 2011 and Q4 2010 was valued at US\$15.5 billion, up from US\$4.2 billion during the same period last year. The number of closed transactions in these trailing two quarters increased to 138 transactions, up from 93 in the same period last year. Valuation multiples trended upwards, with mean revenue and EBITDA multiples increasing from approximately 1.0x to 1.3x and 8.5x to 9.2x, respectively, based on publicly available information.

Public company valuation multiples significantly increased compared to the same period last year, with mean trailing 12 months EBITDA to enterprise value multiples for the industry increasing from 6.8x in Q1 2010 to 10.6x in Q1 2011.

AMEC plc, KBR, Inc., and Tutor Perini Corporation led the way in terms of number of transactions completed during the trailing two quarters, each completing two transactions. Lend Lease Group's US\$1.05 billion acquisition of Valemus Limited was the largest deal of the period.

<sup>2</sup> Source: CapitalIQ, March 11, 2011

<sup>3</sup> Source: CapitalIQ, March 8, 2011

<sup>4</sup> AECOM Technologies, Q1 2011 Earnings Call Transcript

<sup>5</sup> JP Morgan Equity Research, January 25, 2011

Market Snapshot										
Company	Market Cap <sup>1</sup>	Share Price <sup>1</sup>	52-Week Low	52-Week High	Price % Change 1 Mo	Price % Change 3 Mo	Price % Change 1 Yr	EV <sup>(2)</sup> /Sales	EV <sup>(2)</sup> /EBITDA	EV <sup>(2)</sup> /EBIT
<b>Diversified Engineering and Construction</b>										
AMEC plc	6,371.8	19.15	12.06	20.19	1.1%	6.7%	78.2%	1.1x	11.7x	13.5x
Arcadis NV	1,608.2	24.19	18.17	25.74	1.1%	6.8%	45.7%	0.7x	8.3x	10.4x
Michael Baker Corporation	268.1	29.07	27.02	41.33	-7.6%	-6.0%	-31.4%	0.4x	4.9x	6.7x
Balfour Beatty plc	3,764.4	5.52	3.67	5.79	-2.9%	12.5%	8.5%	0.2x	5.7x	9.7x
Fluor Corporation	13,025.3	73.66	41.20	75.76	4.1%	11.2%	43.6%	0.5x	14.7x	19.8x
Jacobs Engineering Group Inc.	6,499.9	51.43	34.39	55.73	2.7%	11.5%	22.2%	0.6x	10.4x	12.3x
URS Corporation	3,713.0	46.05	35.09	53.25	-1.0%	10.4%	-7.0%	0.4x	5.6x	6.9x
SNC Lavalin Group Inc.	8,584.2	56.87	42.82	65.10	-1.4%	4.8%	54.4%	1.7x	12.0x	14.2x
Stantec Inc.	1,367.9	29.88	23.46	30.89	1.5%	8.0%	24.2%	1.3x	8.8x	11.5x
<b>Diversified Engineering and Construction Mean</b>					<b>-0.30%</b>	<b>6.3%</b>	<b>26.5%</b>	<b>0.8x</b>	<b>9.1x</b>	<b>11.7x</b>
<b>Diversified Engineering and Construction Median</b>					<b>1.1%</b>	<b>8.0%</b>	<b>24.2%</b>	<b>0.6x</b>	<b>8.8x</b>	<b>11.5x</b>
<b>Specialty Engineering and Construction</b>										
Dycom Industries Inc.	610.6%	17.34	7.3	18.23	0.5%	15.5%	56.6%	0.7x	7.9x	29.9x
Englobal Corp.	120.8%	4.53	2.03	5.68	-5.4%	19.5%	-7.9%	0.4x	NM	NM
Hill International, Inc.	202.4%	5.29	3.59	6.96	-0.2%	-17.1%	23.0%	0.6x	8.6x	13.2x
Shaw Group Inc.	3,012.0%	35.41	27.61	41.62	-10.9%	2.9%	29.2%	0.4x	7.0x	8.5x
Tetra Tech Inc.	1,538.1%	24.69	18.00	27.16	5.1%	-4.7%	-13.8%	1.1x	9.7x	12.7x
Trc Companies Inc.	131.1%	4.83	2.20	5.14	18.4%	28.5%	20.8%	0.5x	24.1x	NM
Willbros Group Inc.	523.8%	10.92	6.80	13.76	-3.9%	14.8%	-12.7%	0.6x	19.3x	NM
<b>Specialty Engineering and Construction Mean</b>					<b>0.50%</b>	<b>8.5%</b>	<b>13.6%</b>	<b>0.6x</b>	<b>12.7x</b>	<b>16.1x</b>
<b>Specialty Engineering and Construction Median</b>					<b>-0.20%</b>	<b>14.8%</b>	<b>20.8%</b>	<b>0.6x</b>	<b>9.1x</b>	<b>12.9x</b>
<b>Construction Contractors</b>										
Aecon Group Inc.	582.0	10.20	8.18	14.27	8.1%	2.1%	2.8%	0.4x	22.1x	154.0x
EMCOR Group Inc.	2,065.2	30.97	22.29	32.75	-2.8%	4.6%	53.9%	0.3x	5.7x	6.8x
Granite Construction Incorporated	1,088.8	28.10	21.22	34.58	-1.4%	1.8%	-15.6%	0.5x	15.3x	NM
MasTec, Inc.	1,636.8	20.80	9.26	21.16	11.7%	43.1%	77.5%	0.8x	7.8x	10.2x
Tutor Perini Corporation	1,147.1	24.36	15.56	25.48	2.3%	14.7%	40.3%	0.3x	5.3x	6.2x
Pike Electric Corporation	319.9	9.52	6.66	11.05	-2.1%	5.7%	-21.0%	0.8x	12.5x	NM
Quanta Services Inc.	4,834.0	22.43	17.01	24.18	-17%	12.9%	-3.0%	1.1x	10.4x	16.1x
Skanska AB	8,658.5	21.06	16.81	21.87	2.5%	7.6%	89.3%	0.4x	7.2x	8.9x
<b>Construction Contractors Mean</b>					<b>2.1%</b>	<b>11.6%</b>	<b>28.0%</b>	<b>0.6x</b>	<b>10.8x</b>	<b>33.7x</b>
<b>Construction Contractors Median</b>					<b>0.4%</b>	<b>6.6%</b>	<b>21.6%</b>	<b>0.5x</b>	<b>9.1x</b>	<b>9.6x</b>
<b>Total Engineering and Construction Industry Mean</b>					<b>0.7%</b>	<b>8.7%</b>	<b>23.2%</b>	<b>0.7x</b>	<b>10.6x</b>	<b>19.6x</b>
<b>Total Engineering and Construction Industry Median</b>					<b>0.1%</b>	<b>7.8%</b>	<b>22.6%</b>	<b>0.6x</b>	<b>8.8x</b>	<b>11.5x</b>

Source: Capital IQ and company filings

<sup>1</sup> Market Capitalization amounts are in millions, based on closing Share Prices as of March 31, 2011.

<sup>2</sup> Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents.

### Select Global Engineering and Construction Transactions since Spring 2011 Newsletter

- February 2, 2011 – **AMEC plc**, a consultancy, engineering, and project management services provider, acquired **BCI Engineers & Scientists, Inc.**, a provider of engineering and environmental consultancy services, for \$20 million. The financial terms of the transaction were not disclosed. (Source: Capital IQ).
- February 1, 2011 – **Jacobs Engineering Group Inc.**, a provider of professional, technical, and construction services, entered into a share purchase agreement to acquire certain components of process and construction business of **Aker P&C Group AS**, for \$675 million. Oslo-based Aker's process and construction units will allow Jacobs to expand its metals and mining business and extend its global presence in China and South America. The financial terms of the transaction were not disclosed. (Source: Capital IQ).
- January 3, 2011 – **Tutor Perini Corporation**, a construction services company, acquired **Fisk Corporation**, a provider of design, installation, and maintenance services of electrical, structured cabling, and building technologies solutions, for approximately \$120 million in cash. Fisk Electric Company had revenues of approximately \$305 million for the fiscal year 2010, representing a valuation multiple of 0.4x EV/Revenue. (Source: Capital IQ).
- December 23, 2010 – **Dycom Industries, Inc.**, a provider of specialty contracting services, acquired NeoCom Solutions, Inc., a provider of construction and technical services for public and private sectors, for \$27.5 million in cash. The financial terms of the transaction were not disclosed. (Source: Capital IQ).
- December 21, 2011 – **Lend Lease Group**, Australia's largest developer and provider of project and construction management services, announced it has acquired **Valeum Limited**, a provider of construction solutions of civil infrastructure, for \$1.05 billion. The acquisition will allow Lend Lease to expand its road, rail, and other construction businesses. The financial terms of the transaction were not disclosed. (Source: Capital IQ).
- December 21, 2010 – **KBR, Inc.**, a provider of engineering and construction services, acquired **Roberts & Schaefer Company**, a design, engineering, procurement, and construction services firm, for \$280 million. The financial terms of the transaction were not disclosed. (Source: Capital IQ).
- October 13, 2010 – **Parsons Brinckerhoff, Inc.**, a consulting, design, engineering, and construction management services provider and subsidiary of **Balfour Beatty plc**, acquired **Halsall Associates Limited**, a provider of engineering services, for approximately \$45.1 million. The transaction represents valuation multiple of 1.2x EV/Revenue. (Source: Capital IQ).
- October 4, 2010 – **Tetra Tech, Inc.**, a provider of consulting, engineering, program management, construction, and technical services, agreed to acquire **BPR Inc.**, an engineering consulting and construction services firm, for \$157 million. The transaction represents valuation multiple of 0.9x EV/Revenue. (Source: Capital IQ).

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