

Clearview

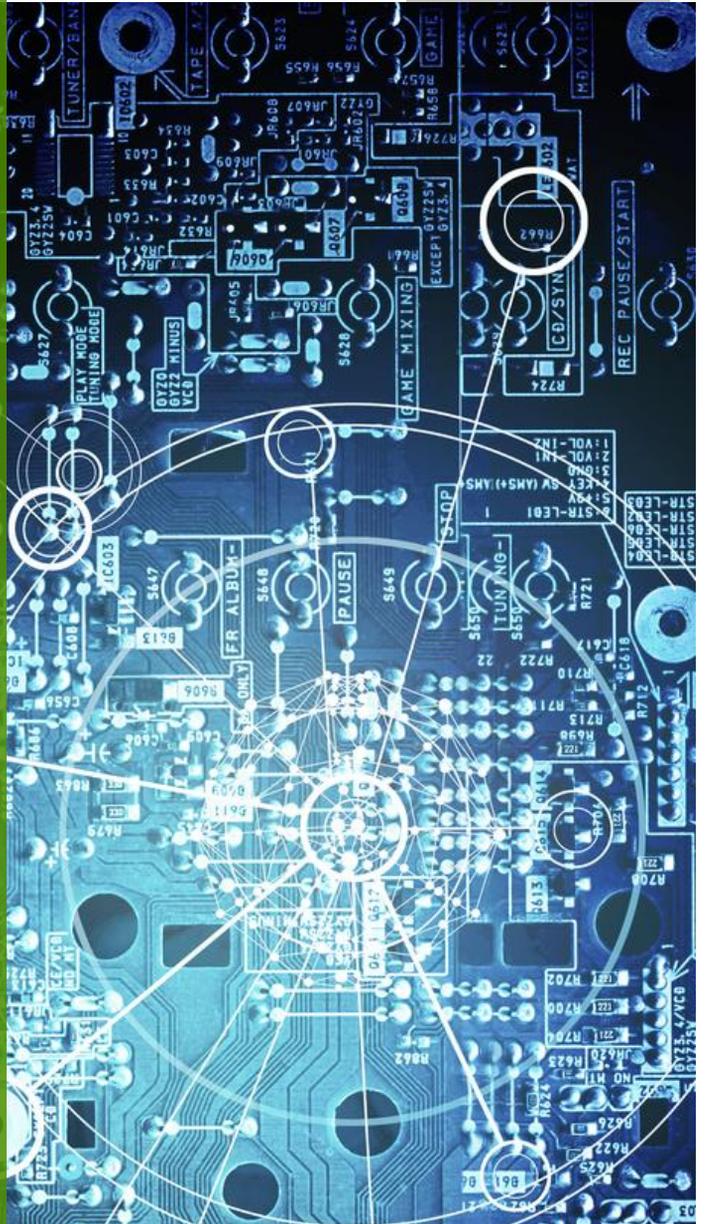
May 2019

Engineering

Consolidation in the market is being driven by a need to offer integrated project solutions, acquire scarce talent and broaden geographic presence.

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Ongoing consolidation

Consolidation drivers

Recent reports indicate that c. two-thirds of baby-boomer entrepreneurs in the engineering and construction sector do not expect to pass their company down to the next generation¹. This factor has caused an increase in the number of available targets in the M&A market in Europe and the US. At the same time, large firms in the engineering sector increasingly include acquisitions in their corporate strategy. This desire for consolidation can be explained by firms' needs to strengthen their ability to offer integrated project solutions, acquire scarce talent and broaden their geographic presence.

An increasing number of clients look for engineering companies which offer one-stop shop services. Comprehensive outsourced solutions offered to clients provide them with increased efficiencies, better quality control, as well as the capacity to fully focus on value-added tasks. To have the ability to tackle such projects from start to finish, engineering companies have been looking to achieve vertical integration through inorganic growth, particularly in digital and connected technology. These transformative acquisitions allow engineering companies to offer end-to-end solutions and to take advantage of cross-selling opportunities.

Moreover, as projects increase in complexity, engineering firms require

deeper technical knowledge from their staff. In order to win the talent war, these players strategically screen for targets which employ expert engineers focused on specific and innovative fields. This allows buyers to remain competitive in a market where competitors are threatened by losing bids as a result of talent scarcity.

On another note, for several years, engineering groups in fast growing economies, such as India and China, have been expanding their services internationally in order to diversify from their domestic market. In several cases this geographic expansion has been achieved by means of inorganic growth (acquisition of in-tech GmbH by Beijing BDStar Navigation Co., among others). This trend continues to stimulate M&A activity within the sector in Europe.

Finally, private equity funds are showing increased interest in companies within the engineering sector as well, particularly in maintenance and service firms. This interest stems from the development of Industry 4.0 projects and from an increase in projected infrastructure spending. In fact, infrastructure spending is expected to reach c. \$94tn worldwide by 2040 to meet rising demand¹. This demand is caused by urban development in developing economies, as well as the need to upgrade existing infrastructure in order to accommodate new technologies and

alternative energies in developed economies. For example, forecasts estimate that smart cities spending will reach \$158bn globally by 2022²).

M&A outlook

In recent years, these factors have contributed to the rise of M&A activity across Europe. This is particularly observable when looking at average transaction size. For instance, between 2016 and 2018, the number of relevant transactions completed in the European engineering sector declined from 164 to 92. However, average transaction size spurred from €79.4m per deal in 2016 to €296.3m per deal in 2018. As projects increase in complexity, the need for transformative acquisitions increases as well. These elements confirm a rising appetite from large groups. In Europe, this is the case particularly in the UK and France, with 127 and 97 major deals concluded in the past 3 years, respectively.

Between 2017 and 2018 European M&A activity led to rising average transaction multiples, from 0.93x to 1.11x Revenue, and from 11.06x to 11.67x EBITDA. Looking forward, we can expect this trend to continue, as the market is consolidating, and the demand for attractive targets keeps growing.

1 FMI Capital Advisors – 2018 M&A Trends reports

2 IDC (Michael Shirer) – July 2018 article

Case study



Clearwater International Denmark acted as financial adviser to P.A.P., a Danish engineering and consultancy company, on its sale to Sweden-based ÅF, an engineering and design company within the fields of energy, industry and infrastructure.

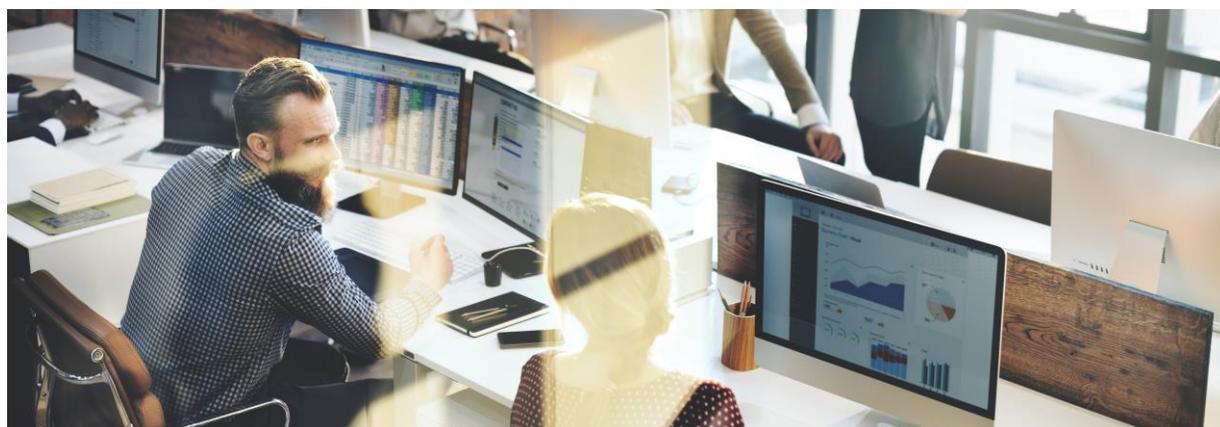
Founded in 1906, P.A.P has expertise in electrical power, covering all parts of the value chain from production to transmission and distribution. The business provides advisory, technical and administrative engineering services in several business segments including substations, renewables and heat & power.

P.A.P primarily operates within the Danish market, including the Faroe Islands and Greenland, with its operations based in Copenhagen, Aalborg and Aarhus.

The Clearwater International team consisted of Partners Simon Bang Mikkelsen and Andreas Lauth Lauridsen, and Senior Associate Louise Normann.

Latest transactions

Transaction date	Target	Target country	Segment	Buyer	Buyer country	Sellers	Transaction value (€m)	EV / Revenue
03/2019	Société Anonyme Belge de Constructions Aéronautiques	Belgium	Design and engineering	Dassault Aviation	France	Fokker Technologies Holding B.V.	7.5	0.3x
11/2018	Inzpire Group Limited	UK	Defence	QinetiQ Group plc	UK	-	22.6	1.8x
10/2018	CCS Customer Care & Solutions Holding	Switzerland	Electronic design	GPV International A/S	Denmark	Patrimonium Private Equity Advisors AG	107.2	0.57x
05/2018	Acro Aircraft Seating	UK	Aerospace engineering	Zhejiang Tiancheng Controls Co., Ltd. (SHSE:603085)	China	Zhejiang Tiancheng Tech-Investment Co., Ltd.	64.2	-
04/2018	Carbures Europe	Spain	Design and engineering	Airtificial Intelligence Structures, S.A. (BME:AI)	Spain	T. Rowe Price Associates, among others	106.5	1.37x
04/2018	Saab AB	Sweden	Defence	-	-	FAM AB	34.1	1.40x
01/2018	Groupe GINGER	France	Civil engineering	EMZ Partners	France	Groupe Siparex	150.0	-
12/2017	Chicago Bridge & Iron Company	Netherlands	Design and engineering	McDermott International, Inc. (NYSE:MDR)	US	Magnetar Capital, among others	3,761.1	0.63x
11/2017	Horlemann Elektrobau	Germany	Civil engineering	VINCI Energies S.A.	France	-	109.0	1.09x
10/2017	Compañía Española de Sistemas Aeronáuticos	Spain	Aerospace	Héroux-Devtek Inc. (TSX:HRX)	Canada	Airbus Defence and Space SA	137.0	1.46x



Recent Transactions



 **oussystem technologies**

acquired

 **STIRLING DYNAMICS**

Buy-side
Undisclosed



 **Arlington Industries**

raised debt finance from

to support the acquisition of

 **MAGAL Engineering**

Debt Advisory
Undisclosed



ÅRSTIDERNE ARKITEKTER

sold to

 **SWECO**

Sell-side
Undisclosed

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