



PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Australia – Engineered For Demand

May 2014

 an independent member of
BAKER TILLY
INTERNATIONAL

Overview

Australia has developed an enviable reputation for its engineering excellence – so much so that the sector is attracting attention from overseas companies looking to secure a foothold in the Australian engineering and construction services industry.

With a long-standing reputation for producing high quality products and services, the Australian engineering sector is backed by a large number of companies that continue to invest in technology, innovation and skills development.

However, it is not hard to see the industry is facing many challenges – both economic and market driven – most notably a skills shortage in 2014. There are a number of major projects being announced and as the country moves into a more positive economic climate, and projects increase, the impact of the recent slowdown will be felt.

As the resources sector moves from an investment focus to a production focus, the size and type of project opportunities for the industry will change. Operations, maintenance and small capital projects may produce some opportunities. Local businesses may also have an advantage in securing contracts with regular and convenient communication meaning they can better understand their clients' needs.

If the Australian dollar continues to fall, competition, in an already tight market, will continue to increase, making it even more critical for engineering companies and contractors to work together in incorporated joint ventures, allowing them to joint tender as a single entity.

Often, those organisations poised for growth, will do so organically, but consideration should also be given to growth through mergers and acquisitions.

From our experience, we are seeing multiple bids for individual operations, a trend we expect will continue for some time yet.



The engineering sector has been particularly active in recent times.

In the past 33 months, Cardno, LogiCamms and Opus have disclosed 20 transactions alone.



Firms which can enable operators to diversify away from mining are hotly contested.

Our recent experience

Our experience tells us there will be continued consolidation within the engineering sector, as businesses look to diversify their offerings and maximise on synergies.

Recently, we have been involved in a number of transactions in the sector, with some businesses attracting significant interest and receiving a number of really good offers. Following quick, but extensive, due diligence, the businesses settled without a pricing adjustment.

What makes the engineering sector different to other sectors is:

- There is a significant amount of interest in Australia's strong engineering credentials
- The number of good bids and strong competition for individual businesses
- The ultimate prices paid and implied multiples obtained are high
- Both domestic and international interest is strong

From our experience, given the structure of the transactions, the price paid and return to vendors is higher than what is reported.

Buyer checklist

The following are the top three characteristics for businesses that are proving of interest for investors:

- ✓ Small percentage of revenues generated from mining
- ✓ New geographic locations
- ✓ New services or customers (ie minimal overlap)

From the transactions we have been involved in and observed, we have learned:

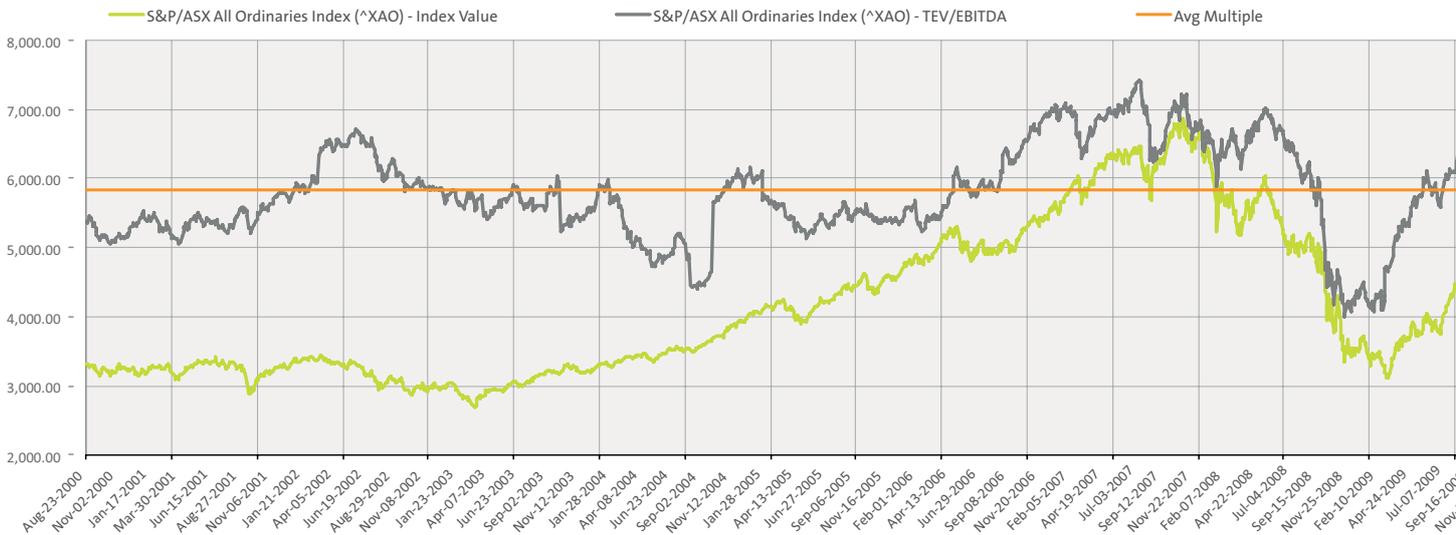
- ✓ The investor ideally wants to retain staff
- ✓ Integration doesn't mean shut down as the focus is on overhead cost synergies and operating systems
- ✓ The target business needs to withstand due diligence

Pitcher Partners' Michael Sonego supported us throughout the capital raising process when we listed in 2011. Michael's practical experience, knowledge of the capital raising requirements and sound commercial advice meant we achieved our final outcome in a very complex and challenging environment.

Paul Fielding // Chief Operating Officer
// RXP Services

Engineered for investor interest

On average, trading multiples for engineering companies have increased in the past 12 months, with companies with a significant exposure to mining performing less favourably than those with a diverse customer spread.



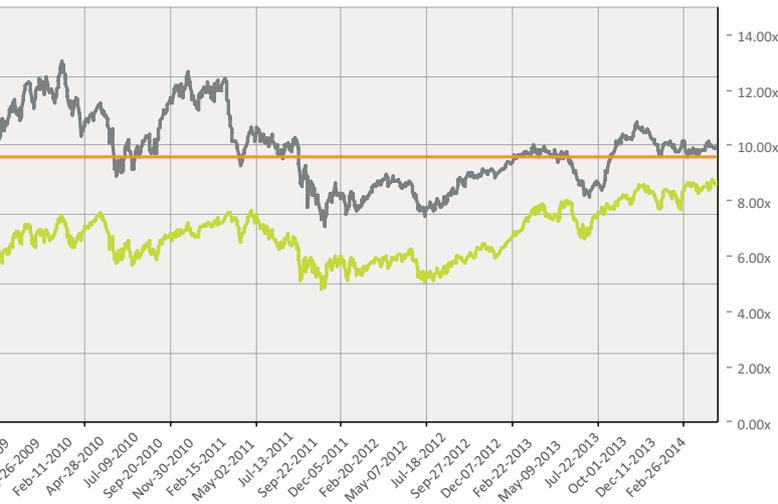
Source: Capital IQ

Market trends

- The last quarter of 2013 saw a rebound in M&A activity in the global engineering and construction (E&C) sector, boding well for increased M&A activity in 2014.
- Leading deal volumes in 2013 were in Asia and Oceania, where investors were involved with 79 deals valued at almost \$20 billion in the last quarter.
- In the longer term, there are predictions of increased cross-border activity for M&A activity in E&C, especially in emerging markets which are expected to continue to drive global growth.
- Cross-border deal activity is expected to strengthen as developed markets remain stagnant and emerging markets remain vital for growth among mature market E&C companies.
- The majority of transactions in the E&C sector were local deals, particularly within Asia, with 2 of the 26 Chinese transactions being cross-border. Selectivity regarding cross-border deals is expected to continue in the near term, as baseline growth rates are established in target markets.
- Throughout 2013, deal sizes remained steady but were more diversified across industries. The mega-deals in the second half of 2013 in home building and engineering are likely an indicator of things to come.
- Today's E&C projects are more complex than ever, underpinning increasing reliance on technical specialisation and relationships in key growth regions and driving activity, even in a tepid global economic environment.

Investors tending to show the greatest interest in engineering companies are those with large appetites, given their exposure to volatile commodity prices. The collapse in share prices in the Gold sector has piqued the interest of speculators who are willing to punt with their money, but only with companies that demonstrate strong growth potential.

ASX trading multiples, on average, are on par with long term EBITDA multiples, suggesting pricing is good for those looking to realise the value they have created in their business.



Trading multiples of listed engineering consultancy firms

Company	Enterprise Value \$m	Historical EBIT Multiple
Monadelphous Group Limited	1,576	7.2x
Cardno Limited	1,148	10.3x
RCR Tomlinson Limited	414	9.7x
Calibre Group Limited	169	5.6x
Decmil Group Limited	397	6.1x
Ausenco Limited	123	3.5x
Opus International Consultants Limited	262	10.9x
WDS Limited	130	10.3x
Structural Systems Limited	46	9.7x
E&A Limited	114	8.2x
Lycopodium Ltd	131	5.6x
Logicamms Limited	97	7.6x
GR Engineering Services Limited	60	6.0x

As at 31 December 2013 // Source: Capital IQ

Recent M&A engineering sector activity

Deal Brown & Tomkinson



Brown Consulting delivers infrastructure design solutions. In 2009, Brown Engineering merged with Tomkinson Consulting and in 2011 it joined the Australian listed company Calibre Group. This year, New Zealand based Spire joined Calibre, as part of the group's ongoing expansion strategy. Pitcher Partners advised Tomkinson on the 2009 merger.

Deal Bowdens/Opus International



On 31 March 2014 NSW based survey, civil engineering and water design firm, Bowdens Group Australia Pty Ltd was acquired by renowned worldwide engineering firm Opus International. Pitcher Partners advised the vendors of Bowdens Group on their exit.

Deal Jacobs Engineering Group/Sinclair Knight Merz



In mid 2013, Jacobs Engineering Group purchased Australian-based Sinclair Knight Merz, an employee-owned provider of engineering services in a deal valued at \$1.2 billion. This deal illustrates the interest and size of transactions in the sector.

Our commercial services to dynamic businesses

Financial essentials

- Accounting and business advisory services
- Audit, risk management and assurance
- Internal audit
- Recovery, turnarounds and insolvency
- Tax advice and compliance

Planning and growth

- Corporate advisory including mergers and acquisitions
- Business consulting and commercial advice
- Business performance improvement
- Business structuring
- Corporate governance
- International business advisory
- Investment advisory services
- Succession planning
- Superannuation services
- Tax consulting
- Technology and IT consulting
- Valuations

Our private wealth services

- Estate Planning
- Family office management
- Investment advisory services
- Philanthropy services
- Succession planning
- Superannuation strategies
- Tax advice and compliance

Industry specialisations

- Retail
- Professional services
- Health and aged care
- Manufacturing
- Not for profit
- Property and construction
- Government and the public sector
- Agriculture
- Food and beverage
- Hospitality

Pitcher Partners refers to the Victorian partnership and its associated entities including Pitcher Partners Advisors Limited, Pitcher Partners Consulting Pty Ltd, Pitcher Partners Corporate Pty Ltd, Pitcher Partners Transaction Services and Pitcher Partners Investment Services Pty Ltd.

Est.
1991

\$3.4BN

Billion worldwide revenue 2013 (USD)

89

Partners

1000+

National staff



Independent member of the Baker Tilly International global network



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Pitcher Partners
is a national
association of
independent
firms.

Liability limited by a scheme approved under
Professional Standards Legislation.

Our transaction experts

Michael Sonogo



Transaction Services Partner

Michael's astute business acumen and persuasive negotiating skills assists many clients in their transaction pursuits and growth strategies. He draws on his existing financial and banking networks to maximise business and financial results. He has worked with many clients on their expansions, particularly through their buy and sell side mandates.

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Rohan Filer



Transaction Services Client Director

Rohan specialises in mergers and acquisitions advisory services and has considerable experience in advising on acquisitions, disposals and capital raisings in both the private and public markets. He has advised on transactions ranging in value from \$1 million through to \$4 billion and brings a wealth of experience in deal execution and completion.

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