

Buying and Selling Companies in the Infrastructure, Construction & Materials Sector

A step-by-step guide to finding the
deal that's right for you.



Infrastructure, Construction
& Materials Sector



Executive Summary

The value of this guide

For over 40 years CDI Global has advised companies on mergers and acquisitions (M&A). Our team of experts have extensive knowledge of the Infrastructure, Construction, and Building Materials sectors, and understand the prime importance of making informed choices in these complex global industries. This guide aims to explore these benefits and pitfalls and demonstrate that with the right expertise, there are deals to be made that can greatly benefit your business.

Who is it for?

This guide is intended both for companies throughout the Infrastructure, Construction, and Building Materials sector and those seeking investment opportunities, such as private equity firms. It should also be particularly useful to senior executives and owners of smaller to middle market companies who would like to know more about potential M&A in these sectors, whether or not they are ready to make a move. For those who have never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

Key takeaways

- The state of the Infrastructure, Construction & Materials sector
- M&A – Opportunities and Challenges
- The benefits of buying or selling, locally or globally
- Successful M&A - where strategy and process align



Get an experienced perspective on your Infrastructure, Construction & Materials sector ambitions

CDI Global works with businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in the sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our construction experts by phone or Skype™.

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Why buy or sell in the Infrastructure, Construction & Materials sector?

Infrastructure, Construction & Materials by nature is a high growth sector and if you're not growing, you're probably getting replaced. While R&D can help you fill holes in your product roadmap, most companies now recognize that, by the time you develop a new product, someone else is already in the market. Therefore, M&A is often the best method to get to market in the highly competitive construction space.

An important driver can also be the need to focus on strengths. Strip non-core elements out of the business and build excellence and specialty in your field. This may include buying competitors and complementary businesses. Acquisition is also effective for securing growth in new geographies or for increasing scale and market power in more mature market segments in Europe and North America. That said, if your company is operating in a legacy construction sector, the opposite approach – branching into a new high growth field – might be the correct strategy.

The right acquisition can deliver Research and Development (R&D), diversification and access to new markets in one deal. As we have said, the Infrastructure, Construction & Materials sector is complex and there is simply no single best strategy. However, one thing is certain: the right 'fit' is as important as the right price and, for this, custom-tailored deals informed by sector expertise are best.





The Current State of the Infrastructure, Construction & Materials Market



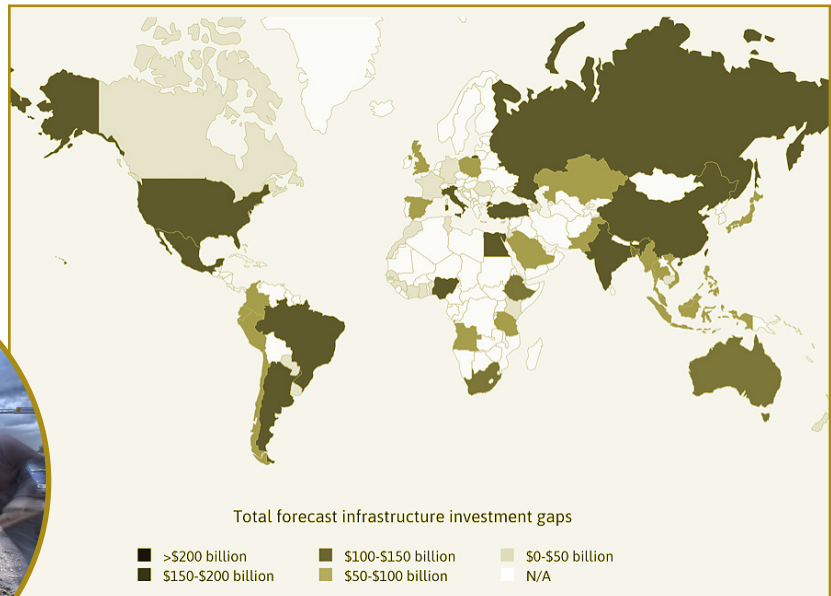
The continued evolution of these industries has left fragmentation in some areas. Globally, companies willing to grow through acquisition continue to decrease their exposure to the traditionally cyclical nature of the sector. Inversely, this can create an opportunity for companies who wish to transition and sell their company, creating an interesting dynamic in the market."

- Nick DeVaney – CDI Global



Globally, infrastructure investment continues to fall short of the projected investment needed. Global Infrastructure Hub recently reported a total global investment of \$94 trillion while current trend forecast suggests actual investment of \$79 Trillion.

Demand for fulfillment in the infrastructure and construction sector will continue to grow. The potential for economic and political pressures may continue to drive the M&A environment as companies look to remain ahead of trends and adapt to market conditions.



Source: Global Infrastructure Hub



Where do the opportunities lie?

Companies looking to consolidate their competitive positions across areas such as Europe and Asia-Pacific, or those looking to be early movers into Brazil's privatization of airports and other infrastructure, opens up opportunity for sellers to position themselves as a valuable target.

As North America begins to slow in pace relative to recent years, the market continues to be strong. The number of privately-held, quality companies as acquisition targets has decreased, driving competition for those remaining. However, they are still attracting international attention from companies looking to capitalize on the market conditions and possibly acquire in the future when it is no longer viewed as its high point.



What are the challenges?

The benefits of M&A to a company are numerous – greater scalability, increased sophistication of talent and personnel, decreased external risk through vertical integration and, of course, greater revenues.

The biggest challenge to M&A success typically doesn't reveal itself until the transaction is consummated - the integration of the companies. The second biggest challenge to M&A success is well before the transaction ever occurs – the strategy.

When gathering the top reasons why M&A transactions have not generated expected value, aside from external economic factors, the respondents answered accordingly. These responses can effectively be categorized into two factors; Strategy (pre-transaction) and Integration (post-transaction).





"Identify the Right Opportunity"

What to do if you're looking to buy



"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy."

1 The starting point:

It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide the framework for defining the criteria when choosing your target.

2 Next steps:

Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector who will also advise on how and when to approach the companies in question.

3 Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates, they tend to be self-hedging if the changing value of debt and profits go hand in hand. Investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings. CDI Global's M&A advisors understand global markets and can shepherd you through the landscape and financial ramifications of your deal.

4 Identifying the right opportunity:

As we have said, many companies seek to strengthen their core when acquiring; but other businesses may diversify, either into higher margin sectors or to hedge against shocks in specific markets or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

- i. A steadily growing sales and profit profile
- ii. Good growth potential based on factors such as holding a niche position and/or valuable intellectual property.
- iii. Fragmented supplier and customer bases, relatively immune to cost/price pressures and more able to sustain margins.

5 Auctions:

On the face of it, auctions appear a good solution for time-poor senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a glossy prospectus that arrives in the post, to be read at your leisure. But there are three immediate disadvantages:

- i. The prospectus will often go to many other potential buyers, thus inviting maximum competition.
- ii. You may receive it irrespective of the suitability of the offer, which can distract from the original goals.
- iii. The focus for the bank conducting the auction is getting the best price for the seller.

So your chance of acquiring a company that's a good fit at a reasonable price is diminished. And companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to color their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

6 Why use a specialist?

Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere. You need someone who understands your sector inside out and talks your language, yet also works cross-border as a matter of course, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors and driving the deal home.

CDI Global deploys experienced specialists that listen to your needs in order to craft comprehensive strategies based on your precise requirements. Having an expert in your corner means maximizing your team's time and getting the job done to secure the best possible M&A outcome.





What to do if you're looking to buy...continued



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We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction.”

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Due diligence:

CDI Global has the experience to recognize the warning signs of a bad deal and works with you to avoid those pitfalls. These warning signs include:

- i. The seller appears not to be irrevocably committed to selling.
- ii. The seller has limited or poorly prepared due diligence materials.
- iii. The seller may not have proper support from professional advisors.
- iv. The timetable is unclear or key deadlines in the process are missed or not respected by the seller.
- v. The business starts to under-perform or miss key financial targets.
- vi. The seller reneges on key aspects that have already been agreed.
- vii. Due diligence uncovers one or more 'skeletons in the cupboard'.

However, cross-border deals in the construction sector can have specific pitfalls, especially when dealing in certain Asian countries where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes. If your new acquisition brings with it hidden environmental liabilities, it can have a ruinous impact on your whole business, not just the new company. You need to find these during due diligence, and for that you need expert help. We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction.

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Managing the transition:

With the deal nearing agreement, you will need clear plans (30-day, 90-day or similar) on what will be done immediately once the new business is acquired. It's vital to get role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You need to have clear answers to these important questions. CDI Global can help develop a strategy to navigate your post-merger integration to help optimize efficiency and synergies.





What to do if you're looking to sell?





1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labor. Is the next generation willing or able to pick up the reins? If not, what are the options to transition the business? Is selling the right answer?

2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well-defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually craft a plan based on your desired timing. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension liabilities).

3 Auctions:

Contrary to the Buyer's perspective outlined previously, Auctions may be a great way to maximize the value of the transaction for a seller by increasing the number of prospective buyers. Some of these benefits:

- i. Increased odds of consummating a transaction with greater options
- ii. Competition often drives increased value, not just increased price
- iii. Selling company controls the process and establishes the criteria

Ultimately, in an Auction process, preparation is fundamental to the successful outcome. A Seller should be aware that there are also potential pitfalls of a controlled Auction process such as greater market awareness of your potential sale, increased potential for confidential information to be shared outside of your control, or competitors simply masquerading as a prospective buyer in an effort to learn more.

CDI Global has the experience and knowledge of how to drastically mitigate potential pitfalls as the M&A Advisor in an Auction process. Often times, a well-run process lead by an experienced M&A professional with lead to increased value far beyond any potential downside risks.

4 Finance:

It is the buyer who ultimately fixes the value of your business based on market, competition, and your unique selling points. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical determinant of value. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price and expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more sale-able. This may be necessary to remove an obstacle to sale (e.g. an environmental issue), but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or financial buyers, i.e. private equity.

5 Due Diligence:

What does a 'good' buyer look like?:

- i. They have the right attitude and commitment to do the deal.
- ii. They can provide proof of sufficient finances to complete the transaction.
- iii. They have the resources, in particular the right people, to progress the deal.
- iv. They have a track record of closing other similar deals.

6 Legacy / Cultural Considerations:

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately-owned company, do you want the company name and brand to continue?

About CDI Global

We hope this guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 40 years of experience has shown CDI Global how to navigate the shifting marketplace, and guide companies through the process to find opportunities that match their goals.

**We have the knowledge.
Would you like to reap the benefit?**

CDI Global offers expertise in:

- Infrastructure, Construction & Materials sector expertise – unlike banks and investment advisors, our team has both worked and conducted M&A advisory within various sectors across the industry. We know the industry structure and dynamics inside out.
- Bespoke and pro-active approach. We go out and find the best deal for your unique requirements, and offer pragmatic, hands on support.
- Extensive network of contacts, particularly among privately owned companies in the healthcare sector.
- Cross-border M&A expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- We focus on best strategic fit, not just best price.
- Experience in search projects and approaching SME owners on a highly confidential basis, improving closing rates and sourcing “not-for-sale” vs auction opportunities.
- Experience and support in organizing local Due Diligence, managing negotiations and providing results.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions - based on trust and professionalism.



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CDI Global works with businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in the sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our construction experts by phone or Skype™.

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