

ENGINEERING · CONSTRUCTION

SECOND QUARTER

2019

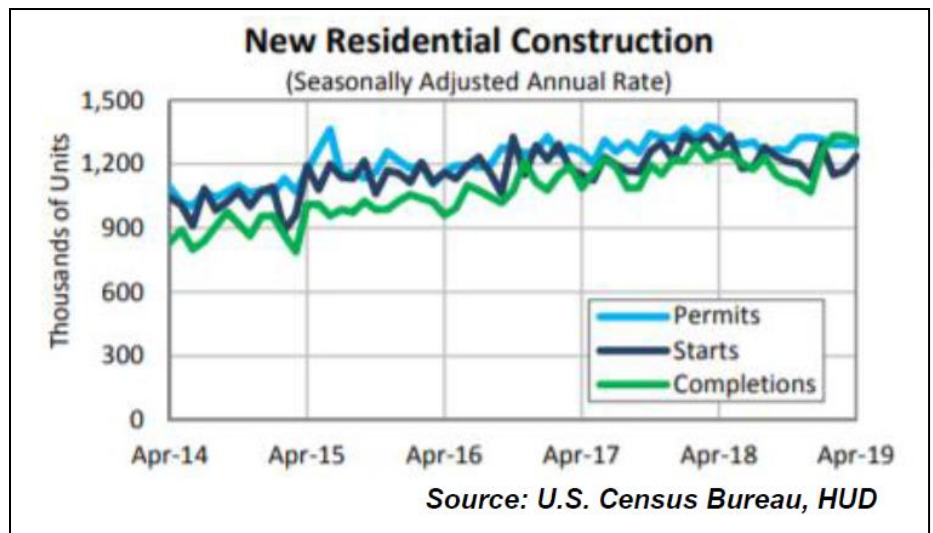
The Engineering & Construction Industry Practice Group draws on the experience of CFA dealmakers, who as former business owners, CEOs, and industry professionals, have first-hand knowledge and have completed many transactions in sectors throughout the Engineering & Construction category. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Engineering & Construction M&A

M&A activity for North American based target companies in the Engineering and Construction sector for Q1 2019 included 83 closed deals, according to data published by industry data tracker *FactSet*.

One of the notable middle market transactions was announced in February when Authority Brands, LLC, a portfolio company of Apax Partners (UK) Ltd, acquired Clockwork IP, LLC, a subsidiary of Direct Energy Services, LLC, ultimately owned by Centrica Plc, for US\$300 million. Founded in 1999, Clockwork IP is located in Houston, Texas and provides residential heating and cooling, electrical and plumbing services.

Construction continues to be strong. Privately-owned housing units authorized by building permits in April were at a seasonally adjusted annual rate of 1,296,000. This is 0.6 percent increase above the revised March rate of 1,288,000.



Transactional Overview

Notable closed lower middle market transactions for the period in the Engineering and Construction sector include:

March 2019 - Thornton Tomasetti, Inc. acquired Becker Structural Engineers, Inc. for an undisclosed amount. Thornton Tomasetti provides engineering design, investigation and analysis services. Becker Structural Engineers provides engineering services. It serves architects, contractors, developers and government sectors. The company was founded in 1995 and is headquartered in Portland, ME.



MERGERS, ACQUISITIONS, AND
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February 2019 - GSE Systems, Inc. acquired DP Engineering Ltd Co for US\$18.5 million in cash and contingent payout, subject to customary working capital adjustments. GSE Systems engages in the provision of engineering, staffing and simulation software to clients in the power and process industries. DP Engineering provides engineering solutions and services for the nuclear power industry. The company was founded in 1995 and is headquartered in Fort Worth, TX.

February 2019 - Comfort Systems USA, Inc. acquired Walker TX Holding Co, Inc. for US\$203 million in cash and debt notes with an undisclosed amount in contingent payout, subject to working capital and post-closing adjustments. Comfort Systems USA provides mechanical installation, renovation, maintenance, repair and replacement services for the mechanical services industry in the United States. Walker TX Holding Co. operates as a holding company providing engineering services. The company is headquartered in Irving, TX.

Selected Q2 Closed Transactions	
Target/Issuer	Buyers/Investors
Florida Turbine Technologies, Inc.	Kratos Defense & Security Solutions, Inc.
Clockwork IP LLC	Apax Partners (UK) Ltd.; Authority Brands LLC
Walker TX Holding Co., Inc.	Comfort Systems USA, Inc.
DP Engineering Ltd. Co.	GSE Systems, Inc.
EPIC Y-Grade Pipeline LP	Noble Midstream Partners LP
PB Heat LLC	Noritz Corp.
Dinwiddie Cattle Co., LLC/ Dinwiddie Assets/	Intrepid Potash-New Mexico LLC
Owen Group, Inc.	Bureau Veritas SA

Industry Update

US construction spending rose 4.1% in 2018 from the year before, but activity dropped each month from August through the end of the year. The slump suggests that the US economy was slowing amid the waning stimulus effect of tax reform, trade tensions with China, and declining global economic growth, according to Reuters. Other bellwethers for the economy -- including home sales, housing starts, trade, and retail sales - also weakened in December. Several key construction segments saw strong growth in 2018, including water supply (with a rise of 17%), lodging (11.7%), office (9.2%), and sewage and waste disposal (8.1%). Other major markets, including residential, commercial, educational, health care, and highway and street, saw more moderate growth.

Industry Indicators

- US corporate profits, an indicator of corporate demand for construction services, rose 7.4% in the fourth quarter of 2018 compared to the same period in 2017.
- The value of US nonresidential construction spending, a demand indicator for heavy construction, rose 4.3% year-to-date in February 2019 compared to the same period in 2018.
- US steel mill product prices, an indicator of commodity steel product costs used in construction, rose 10.3% in March 2019 compared to the same month in 2018.

Collectively, the Engineering and Construction Practice Group provides M&A advice to public and private companies in all sectors of the engineering and construction industries, including general contractors, electrical contractors, landscape contractors, concrete, drywall and installation contractors, engineering and architecture, HVAC and plumbing contractors and excavation contractors. For information on mergers, acquisitions, divestitures, recapitalizations, joint ventures or financial resources, contact your local Corporate Finance Associates office.

