

## CONSTRUCTION & ENGINEERING SUMMARY REPORT

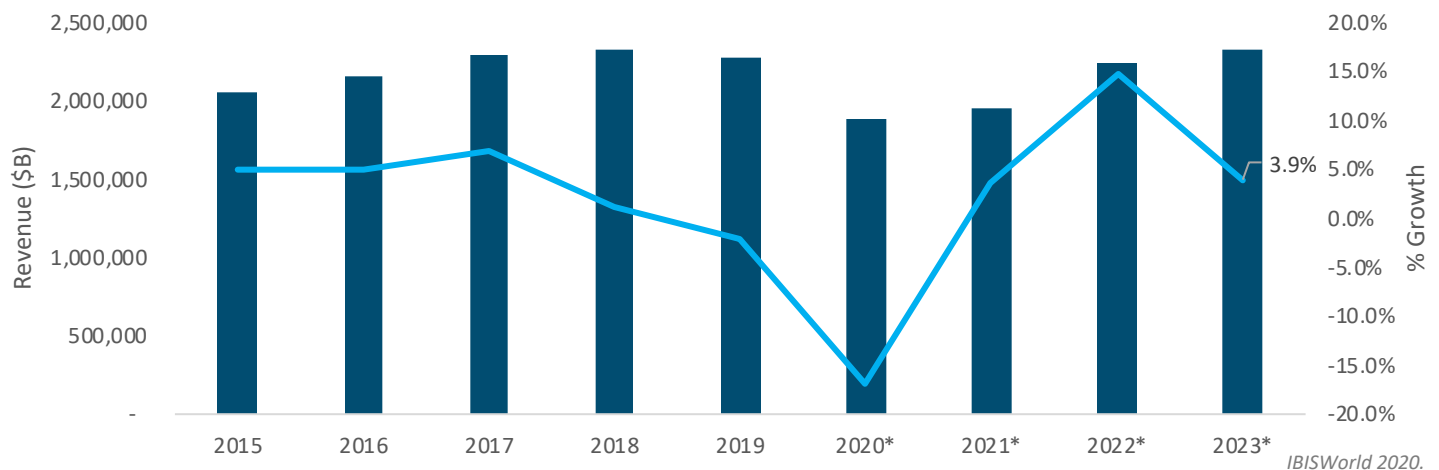
2020 – 2<sup>nd</sup> QUARTER

### ENGINEERING & CONSTRUCTION OVERVIEW

- The engineering and construction (“E&C”) industry is comprised of operators involved in the construction or engineering of complex building projects. Residential building, commercial and industrial expenditures, and municipal projects contribute as some of the largest revenue drivers in the industry. Recent years have seen low interest rates and increasing corporate profits have helped fuel construction, while inconsistent municipal and federal spending from a tightening budget have slowed some activity. Following a year of stagnant growth in 2019, the E&C industry kicked off 2020 with a strong first quarter of nearly 5% growth in construction activity compared to the year prior.
- The industry received a blow from the pandemic and is anticipated to experience a 16.9% revenue decline in 2020. Project timelines have been delayed or cancelled, and rising unemployment has slowed the demand for residential construction. Commercial construction has faltered as the pandemic accelerates the decline in activity for brick-and-mortar outlets, on top of decreased overall consumer spending and business activity. Furthermore, municipal and state governments whose Department of Transportations rely on gas revenues have seen funding cuts due to drops in gas prices.
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act gave the E&C industry a lifeline, particularly for a fragmented industry of small businesses who were able to take advantage of the Paycheck Protection Program (PPP). The fourth stimulus package will be watched closely, as many have called for an infrastructure bill to support the US economy. The HEROES bill, which passed in the House only, included \$15B for DOT’s, but negotiations will resume in late July before it goes through the Senate.
- Looking forward, the industry is expected to take a few years to recover with a strong rebound in 2022. Low housing supply and low interest rates, along with pent-up demand from 2020, are expected to drive residential construction in the next two years. Commercial construction will rise alongside corporate profits as the economy gets back on track, however state and municipal investments are expected to be weak due to a lower tax base and rising debt. Ultimately, the E&C industry will have a gradual recovery spanning several years.

*IBISWorld, Congress.gov, RCO Research.*

#### INDUSTRY REVENUE



# FEATURED SEGMENT: U.S. WIRE AND CABLE MANUFACTURING



- The wire and cable manufacturing industry provides nonferrous wire, cable, and fiber-optic cable products for consumer goods, utilities, construction, and telecommunications markets. The largest sources of revenue are attributed to electronic, building, and fiber-optic wire and cable users. Electronic wire and cable revenue is closely tied to consumer spending on electronic goods, while building cable demand increases with construction activity.
- The industry has struggled with the recent contraction in industrial markets, causing construction projects to be delayed coupled alongside plummeting oil prices. Disposable income has also dropped, decreasing consumer spending on electronic goods and appliances. A revenue decline of 2.4% is expected in 2020, followed by a gradual rebound at an annualized rate of 1.1% through 2025.
- Import penetration has been a major focus over the last several years and has experienced significant volatility. Despite the Trump Administration's import tariffs, there has been an increase in imports, which are expected to account for approximately 47.0% of domestic demand in 2020. Exports of wire and cable, primarily to Mexico and Canada thanks to USMCA, are expected to represent 34.5% of industry revenue. An important factor contributing to the increasingly negative trade balance has been the strengthening dollar.
- The industry has seen a shift in demand from the telecommunications industry. Despite the increasing popularity of wireless communication, telecom and cable providers have driven growth in the demand for fiber-optic cable which can transmit data at higher speeds. In part, this is due to the increased use of video-chat and movie-streaming services.
- Despite current weak market conditions, wire and cable demand looks to pick back up and stabilize by 2021, with a full recovery estimated in 2022. The rally will be driven by strong domestic demand for power cable in electricity generation and distribution markets, along with rising construction activity. Furthermore, the industry's primary input, copper, is expected to stabilize with gradual growth after years of volatile prices. Higher copper prices are passed on to consumers, raising industry revenue and eventually profit.

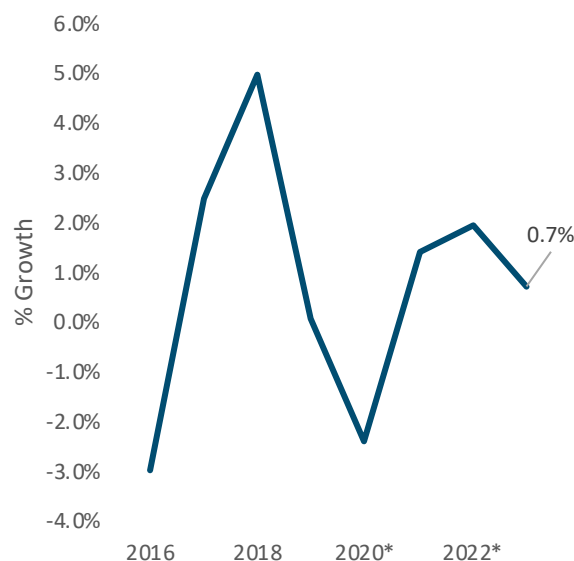
IBISWorld 2020, RCO Research.

## NORTH AMERICAN DEAL COUNT & AVERAGE VALUATIONS

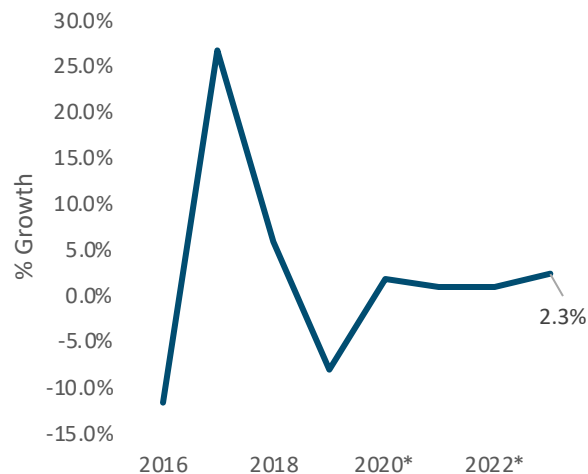


PitchBook data through June 30, 2020.

## WIRE AND CABLE DEMAND



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IBISWorld 2020.

## HEAVY E&C PERFORMANCE AND MULTIPLES

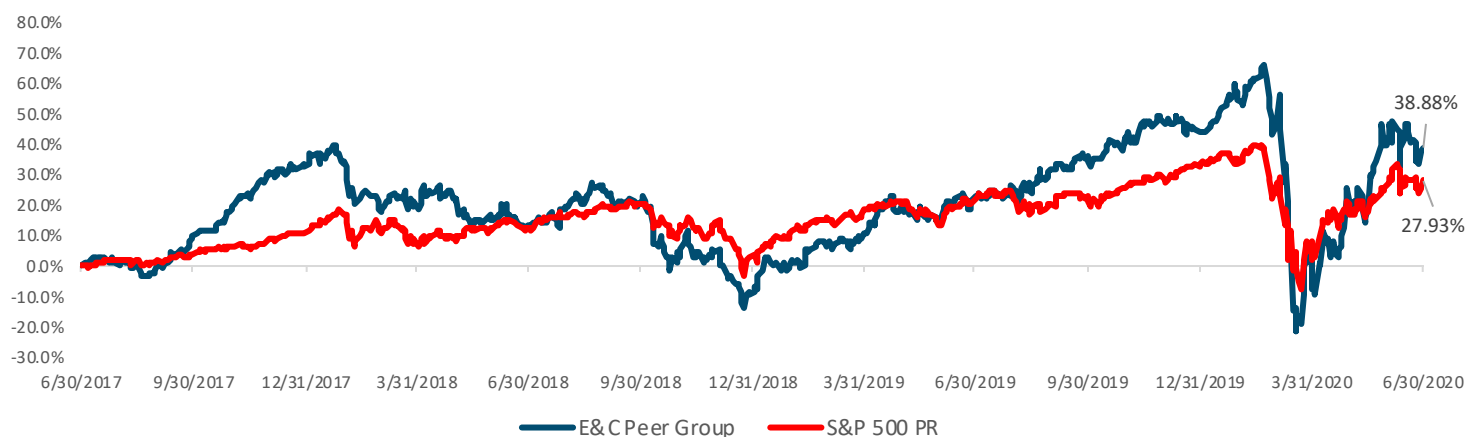
TEV Range (\$MM)	Revenues (\$MM)	EBITDA Margin %	TEV / EBITDA
10-25	\$20.6	23.2%	5.0X
25-50	\$43.3	20.7%	5.6X
50-250	\$95.1	31.3%	5.8x

GF Data® 2003 through June 30, 2020.

# R&C ENGINEERING & CONSTRUCTION INDICES

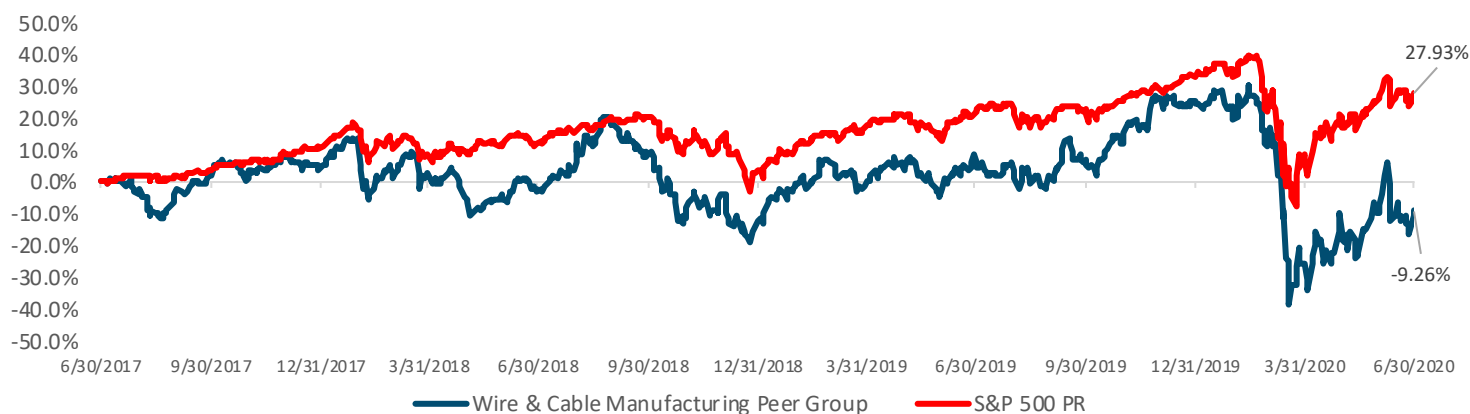


## E&C INDEX



Peer Group	As of 6/30/2020			TTM 6/30/2020		EV Multiples	
	\$ / share	Market Cap	Enterprise Value	Sales	EBITDA	TTM Sales	TTM EBITDA
D.R. Horton, Inc.	\$ 55.45	\$ 20,158.17	\$ 23,259.27	\$ 18,465.90	\$ 2,508.00	1.3x	9.3x
Aecom Technology Corporation	37.58	6,016.03	7,884.52	16,577.16	243.93	0.5x	32.3x
EMCOR Group Inc	66.14	3,627.53	4,036.84	9,315.72	562.87	0.4x	7.2x
KBR Inc	22.55	3,208.80	3,939.80	5,836.00	328.00	0.7x	12.0x
Fluor Corporation	12.08	1,693.31	1,646.91	18,520.50	(517.13)	0.1x	-3.2x

## WIRE & CABLE MANUFACTURING INDEX



Peer Group	As of 6/30/2020			TTM 6/30/2020		EV Multiples	
	\$ / share	Market Cap	Enterprise Value	Sales	EBITDA	TTM Sales	TTM EBITDA
Belden Inc.	\$ 32.55	\$ 1,449.04	\$ 2,641.36	\$ 2,007.63	\$ 322.70	1.3x	8.2x
Atkore International Group Inc.	27.35	1,290.58	2,041.53	1,898.30	330.99	1.1x	6.2x
Encore Wire Corp.	48.82	1,003.60	796.77	1,263.08	96.62	0.6x	8.2x
RF Industries Ltd.	4.66	45.47	32.42	53.86	3.00	0.6x	10.8x
Houston Wire & Cable Co.	2.36	39.14	134.96	336.55	7.32	0.4x	18.4x

PitchBook data through June 30, 2020.

# FEATURED E&C TRANSACTIONS



Acquired by



On June 29, 2020, Tecta America, a national leader in commercial roofing, announced the acquisition of B&L Sheet Metal & Roofing.

Based out of Bloomington, Indiana, B&L Sheet Metal and Roofing has a strong reputation for roofing and sheet metal services in the south-central Indiana area. This acquisition is a continuation of Tecta's expansion in the state, following two other acquisitions in 2018.

Financial terms of the agreement were not disclosed.<sup>1</sup>

On May 29, 2020, IMEG Corp., a leading full-service engineering firm, acquired the structural engineering group of Cardno.

Founded in Houston as Haynes-Whaley, Cardno's structural engineering group specializes in structural design and forensic engineering for a variety of market sectors. This acquisition will allow IMEG to combine its own building design experience with Haynes-Whaley's structural building expertise, producing a strong synergy for growth.

Financial terms of the agreement were not disclosed.<sup>2</sup>



Acquired by



Acquired by



On April 6, 2020, CUI Global, Inc. (NAS:CUI), an acquirer of diversified energy services, announced the acquisition of Reach Construction Group.

Reach is an engineering and construction company with a deep expertise in renewable energy project delivery. Reach is a leader in the solar construction industry, particularly solar farms, site preparation, and public utility construction. The acquisition is expected to be immediately accretive, by contributing positive net earnings and cost synergies.

Total consideration equated \$37MM.<sup>3</sup>

PitchBook.

1. Transaction Press Release, dated June 29, 2020. <https://www.tectaamerica.com/bloomington-indiana/>
2. Transaction Press Release, dated May 29, 2020. [https://www.imegcorp.com/news\\_events/imeg-corp-acquires-cardno-structural-engineering/?utm\\_source=M%26A+Update+6%2F5%2F2020&utm\\_campaign=M%26A+Weekly+Update&utm\\_medium=email](https://www.imegcorp.com/news_events/imeg-corp-acquires-cardno-structural-engineering/?utm_source=M%26A+Update+6%2F5%2F2020&utm_campaign=M%26A+Weekly+Update&utm_medium=email)
3. Transaction Press Release, dated April 6, 2020. <https://www.prnewswire.com/news-releases/cui-global-inc-closes-acquisition-of-utility-scale-solar-epc-company-reach-construction-group-for-approximately-37-million-in-debt-and-equity-301036096.html>

# ROMANCHUK & CO.

## FIRM CAPABILITIES



Romanchuk & Co. is a boutique investment banking firm providing mergers and acquisitions (M&A) and financial advisory services to lower middle-market leaders within the diversified industrials sectors. We advise owners and investors of privately-held businesses, private equity firms and corporations on the preparation and sale of their company, assist them in identifying strategic

opportunities, and help them execute upon those strategies. Our team of licensed investment bankers specializes in providing sell-side M&A advisory services to lower middle-market companies with enterprise values ranging from \$15 million to \$250 million. For more information, please visit our website at [www.romanchukco.com](http://www.romanchukco.com).

## RECENT EXPERIENCE

Our most recently closed deals showcase our firm's unique ability to execute transactions across the diversified industrials sectors, while maximizing value for our clients in the lower middle-market. Drawing on our collective industry experience and strengths, Romanchuk & Co. is focused on providing creative, impactful M&A strategies to our clients across the diversified industrials sector.



## INDUSTRY RECOGNITION



Romanchuk & Co. was selected as the Boutique Investment Banking Firm of the Year for 2018. Over 230 nominees, representing over 600 companies, became finalists for the awards. An independent judging committee of 29 top M&A industry experts determined the ultimate recipients of the awards.

In addition, Romanchuk & Co. was named a finalist in the following categories: Energy Deal of the Year, Industrials Deal of the Year (\$10MM-\$50MM), M&A Deal of the Year (\$10MM-\$25MM), and M&A Deal of the Year (\$50MM-\$75MM).

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