

Engineering and Construction

Key Trends

Public Funding

The expiration of certain public funding programs is a concern for many engineering and construction companies. Federal economic stimulus money is running out and the current push to reduce the deficit could limit future infrastructure spending. In addition, many states and municipalities are facing financial distress which is expected to limit funding at the local level.

Financing Environment

Debt financing for construction projects remains tight, which is contributing to the continuation of a weak construction market. During the economic downturn, many lenders stopped lending to residential and

commercial developers. Lenders that will provide construction loans have implemented strict underwriting parameters and are requiring more equity and tighter covenants.

Bringing Work In House

In an effort to increase revenue and profit margins, firms are looking to reduce the use of subcontractors and bring more work in house. Companies are expanding capabilities and service lines by hiring professionals or acquiring firms with specialized expertise. This allows them to perform a greater portion of the work on each contract, have greater control over projects, and generate higher profit margins.

Competition

The engineering and construction market remains fiercely competitive. In 2010, it was widely reported that firms were taking on work at low levels of profitability solely to maintain a core level of staff. Multiple parties continue to bid for the few available jobs. This relatively high level of competition is expected to continue to constrain profit margins.

Unemployment Rates

Poor economic conditions have impacted workers in the construction industry especially hard. In December 2010, unemployment in the construction industry reached 20.7% versus an overall unemployment rate of 9.4%. Construction jobs are

Inside

1

Key Trends

3

Mergers and
Acquisitions Activity

7

Industry Valuation Metrics

8

Public Company Index

9

Engineering and
Construction Industry
Transactions

Key Trends

down 93,000 versus 2009 levels and 2.1 million, or 27.0%, since the peak in August 2006. The December figures were impacted by harsh weather conditions; however, the decline is also a sign of the end of temporary federal projects, especially in the transportation sector. (Source: U.S. Bureau of Labor Statistics)

Spending Data

U.S. construction spending remains more than 10.0% below 2009 levels. Prior to November 2010, the weakness was predominantly in the private sector; however, in November 2010, the decline in construction spending was spread across both the public and private sectors. Forecasters predict that the nation's construction industry will begin a slow recovery in 2011, achieving an 8.0% increase in total construction starts. (Source: McGraw Hill Construction)

Regulatory Environment

Engineering and construction companies continue to navigate a complex regulatory environment, including new regulations governing healthcare and addressing the environmental impact of projects. In order to address project delays related to the receipt of government permits and approvals, firms continue to improve upon their systems and processes and lobby government officials for reasonable regulations.

Green Building

Environmental considerations continue to create opportunities in the construction and engineering industry. The U.S. green building construction market is accelerating at a dramatic rate. The value of green building construction starts grew to \$71.0 billion in 2010, up 50.0% from 2008. The green building construction market is expected to grow to \$135.0 billion by 2015. Green building owners receive multiple benefits, including reduced operating costs and increased returns on investment. (Source: McGraw-Hill Construction's Green Outlook 2011: Green Trends Driving Growth report.)

Optimism

Despite the challenges facing the engineering and construction industry, management teams are optimistic about the prospects for 2011. Many firms expect backlog to be up this year and some are starting to talk about hiring additional employees to support the renewed workflow. During the economic downturn, companies tightened their internal controls and restructured their operations, making them better positioned for future growth.

Foreign Investments

Facing mediocre growth prospects in domestic markets, many U.S. companies are looking to grow internationally. Emerging markets, including Brazil, India, China, and to a lesser extent, Russia, offer U.S. companies significant growth opportunities. In addition, U.S. companies are looking at growth prospects in Vietnam, Indonesia, South Africa, Turkey, and Argentina, as well as Mexico. Despite gross domestic product growth projections of over 9.0% in some of these countries, expansion into these markets must be made cautiously due to the risks associated with international expansion.

Mergers and Acquisitions Activity

2010 M&A Environment

In 2010, U.S. M&A transaction volume was up 65.4% across all industries, while transactions in the engineering and construction industry were up 28.2% compared to the previous year. In 2009, 142 transactions closed in the engineering and construction industry with an aggregate total deal value of approximately \$1.8 billion. The average deal size in 2009 was \$43.3 million, based upon transactions with disclosed values. Comparatively, 182 engineering and construction deals closed in 2010 with an aggregate total deal value of approximately \$3.1 billion, representing a 72.0% increase in deal value from 2009. The average deal size in 2010 was \$68.0 million, a 57.0% increase from the average deal size of transactions closed in 2009.

M&A volume in the engineering and construction industry increased from depressed levels in 2009 and showed some stability in 2010; however, the volume of transactions was low relative to the overall M&A market.

The past two years have been difficult for the engineering and construction industry as the economic downturn has had a severe impact on the real estate market. In 2010, engineering and construction projects continued to be constrained by tight credit markets and a slow domestic recovery.

Wilbros Group Inc. (NYSE:WG) topped the list of acquirers in terms of deal value by completing the largest transaction in the industry in 2010 with the acquisition of InfrastruX Group, Inc. for \$859.0 million. This single transaction accounted for 27.0% of the total value of all reported engineering and construction deals that were closed in 2010. Stantec Inc. (TSX:STN) was the most active acquirer in the segment based upon deal volume, closing seven transactions in 2010.

2011 M&A Outlook

M&A activity rebounded strongly in 2010 after an anemic 2009 M&A environment. As the economy continues to recover from the recession and confidence returns, M&A activity is likely to increase at a tempered

pace. Uncertainties continue to impact the engineering and construction industry including high unemployment, government deficits, and increased regulations. Despite these uncertainties, engineering and construction activity is expected to increase. According to Robert A. Murrery, Vice President of Economic Affairs at McGraw-Hill Construction, "2011 will be the first year of renewed growth for overall construction activity, and 2010 becomes the final year of a very lengthy and unusual construction cycle." With expectations set for increased activity, companies may look to build momentum in 2011 through acquisitions domestically and globally. Competition for engineering and construction projects remains strong and companies are looking to grow through acquisitions in order to produce an expanded line of services, gain a competitive advantage, and achieve economies of scale.

In 2009 and 2010, private equity firms faced challenges raising capital and finding leverage to support new transactions.

2010 Most Active Buyers by Number of Transactions

Company Name	Transactions
Stantec Inc. (TSX:STN)	7
Summit Materials, LLC	3
Alternative Energy Partners, Inc. (OTCBB:AEGY)	2
American Residential Services L.L.C.	2
Comfort Systems USA Inc. (NYSE:FIX)	2
DLR Group KKE	2
EMCOR Group Inc. (NYSE:EME)	2
Gilbane Building Company, Inc.	2
Hill International, Inc. (NYSE:HIL)	2
LineStar Services, Inc.	2

2010 Most Active Buyers by Total Transaction Size (\$ in millions)

Company Name	Size
Wilbros Group Inc. (NYSE:WG)	\$859.0
Williams Partners L.P. (NYSE:WPZ)	\$423.7
WS Atkins plc (LSE:ATK)	\$298.7
KBR, Inc. (NYSE:KBR)	\$280.0
AECOM Technology Corporation (NYSE:ACM)	\$233.6
EDF Inc.	\$140.0
Comfort Systems USA Inc. (NYSE:FIX)	\$101.6
Primoris Services Corporation (NasdaqGS:PRIM)	\$87.2
Obrascon Huarte Lain SA (CATS:OHL)	\$72.5
Michael Baker Corporation (AMEX:BKR)	\$62.6

Transaction Size = Value of consideration including cash, stock, net debt assumed and earnouts and includes the total transaction size of deals with disclosed values
Source: Capital IQ

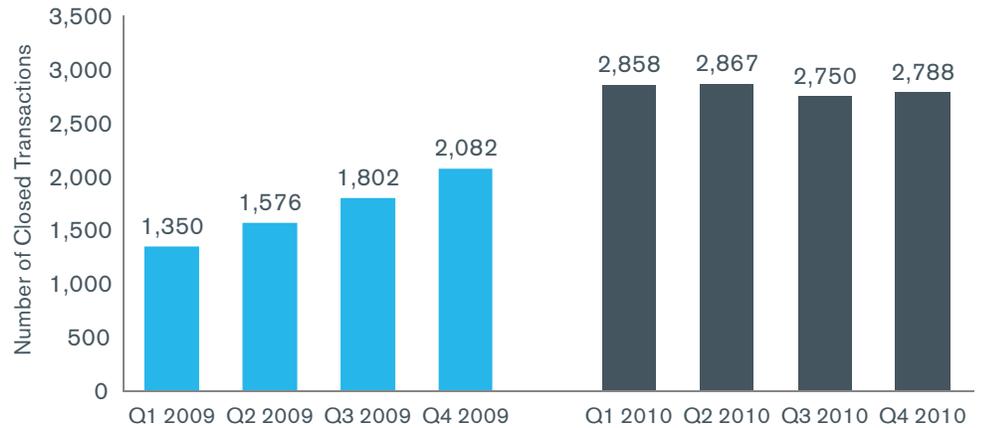
Mergers and Acquisitions Activity

Many private equity firms shifted their attention from new acquisitions to the performance of their existing portfolio companies. During this time period, engineering and construction firms took extensive measures to reduce their costs so they could operate more efficiently and maintain profitability at depressed levels of revenue. These measures have enabled many engineering and construction companies to strengthen their balance sheets and build cash reserves which may be deployed for strategic opportunities.

Current deal flow is largely being driven by focused strategic buyers that are proactively identifying targets and initiating discussions. Strategic buyers are also looking to strengthen their presence in foreign markets through acquisitions, with a particular focus on emerging markets, which offer higher growth prospects relative to domestic opportunities. Whether investing domestically or abroad, strategic buyers remain cautious and look to make acquisitions that fulfill a key strategic objective and strengthen their core businesses.

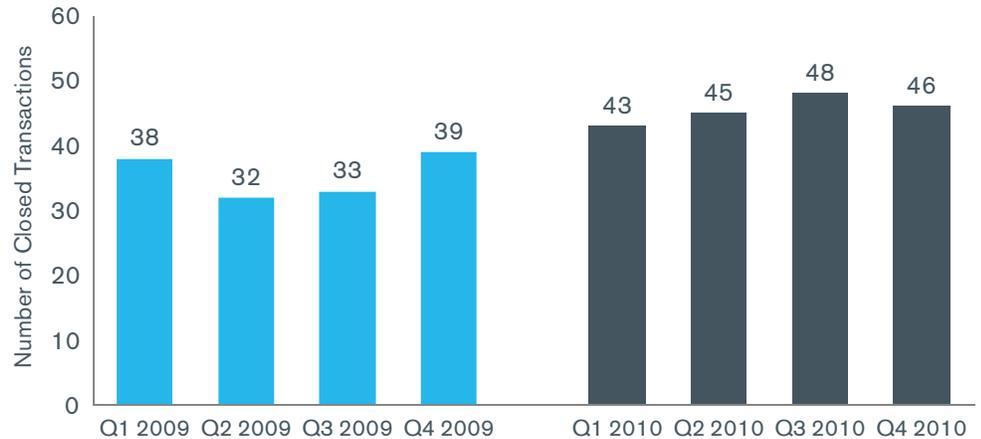
In 2011, strategic buyers are expected to continue to drive M&A activity in the engineering and construction industry while private equity firms are likely to also increase their deal volume as credit markets ease and firms focus on deploying capital.

U.S. M&A Transaction Volume



Source: Capital IQ/MergerStat

U.S. Engineering and Construction M&A Transaction Volume



Source: Capital IQ/MergerStat

Mergers and Acquisitions Activity

Select Domestic Mergers and Acquisitions

September 1, 2010 through December 31, 2010 (\$ in millions)

Announced Date	Target	Acquirer	Implied Enterprise Value
Dec-10	NeoCom Solutions, Inc.	Dycom Industries Inc. (NYSE:DY)	\$27.5
Dec-10	E.H. Pechan & Associates	TranSystems	NA
Dec-10	Roberts & Schaefer Company	KBR, Inc. (NYSE:KBR)	\$280.0
Dec-10	Willow Creek LLC	Blue Castle Holdings, Inc.	NA
Dec-10	RISE International, LLC	Arcadis US, Inc.	NA
Dec-10	Apex Companies, LLC	Tailwind Capital LP	NA
Dec-10	Mid-Plains Power, Inc.	Hunter Equity Capital; Manasota Capital LLC	NA
Dec-10	Design Consultants Group, LLC	Pennoni Associates Inc.	NA
Dec-10	Energy Control Inc.	OpTerra Energy Group, Inc.	NA
Nov-10	Judlau Contracting, Inc. (50.1% Acquired)	Obrascon Huarte Lain SA (CATS:OHL)	\$122.3
Nov-10	Nitti Brothers Construction, LLC	Graycor, Inc.	NA
Nov-10	ONYX Construction, LLC	Management Buyout	NA
Nov-10	Bucher, Willis & Ratliff Corporation	H. W. Lochner, Inc.	NA
Nov-10	Carolina Foundation Solutions, LLC, Shoring and Drilling Division	Subsurface Constructors Incorporated	NA
Nov-10	W.G. Mills, Inc.	Gilbane Building Company, Inc.	NA
Nov-10	C2A Engineering, Inc.	The Schemmer Associates Inc.	NA
Nov-10	MECS, Inc.	El DuPont de Nemours & Co. (NYSE:DD)	NA
Nov-10	TCM Group LLC	Hill International, Inc. (NYSE:HIL)	NA
Nov-10	Rockford Corporation	Primoris Services Corporation (NasdaqGS:PRIM)	\$87.2
Nov-10	Blumen Consulting Group, Inc.	EA Engineering, Science, and Technology, Inc.	NA
Nov-10	STARCON International, Inc.	Cianbro Corporation	NA
Nov-10	Ehrenkrantz Eckstut and Kuhn Architects P.C.	Perkins Eastman Architects, P.C.	NA
Nov-10	Treadwell & Rollo, Inc.	Langan Engineering & Environmental Services, Inc.	NA
Nov-10	ASD Architects and HDC Engineering	MSA Professional Services, Inc.	NA
Oct-10	Florence & Hutcheson, Inc.	Infrastructure Corporation of America	NA
Oct-10	CAX Architects	KTGY Group, Inc.	NA

Implied Enterprise Value = The implied value of 100% of the target company based upon the consideration paid in cash and stock, the net debt assumed, and the value of earnouts
NA = Not Available

Mergers and Acquisitions Activity

Select Domestic Mergers and Acquisitions

September 1, 2010 through December 31, 2010 (\$ in millions)

Announced Date	Target	Acquirer	Implied Enterprise Value
Oct-10	Bencor Corporation of America	Layne Christensen Co. (NasdaqGS:LAYN)	\$32.0
Oct-10	E&R Incorporated	T&D Solutions, LLC	NA
Oct-10	Saiia Construction, LLC	Insight Equity	NA
Oct-10	hardison/downey construction, inc.	Kitchell Corporation	NA
Oct-10	UniStar Nuclear Energy, LLC (Remaining 50% Acquired)	EDF Inc.	\$280.0
Oct-10	Street Smarts Inc.	Stantec Inc. (TSX:STN)	NA
Oct-10	Harry Pepper & Associates, Inc.	EMCOR Group Inc. (NYSE:EME)	NA
Oct-10	Setzer Brothers, Inc.	Aqua North Carolina, Inc.	\$0.2
Oct-10	Acute Technological Services, Inc.	Oil States Industries, Inc.	\$30.3
Oct-10	BEW Engineering, Inc.	Det Norske Veritas ASA	NA
Oct-10	Xnergy	Alternative Energy Partners, Inc. (OTCBB:AEGY)	NA
Oct-10	Delta Construction, Inc.	Gerald H. Phipps, Inc.	NA
Sep-10	Aquaterra Engineering, LLC	Terracon Consultants, Inc.	NA
Sep-10	R.L.P. Mechanical Contractors Inc.	Alternative Energy Partners, Inc. (OTCBB:AEGY)	\$4.8
Sep-10	PM Greene Engineers	Project Management Holdings Ltd.	NA
Sep-10	RSW, Inc.	AECOM Technology Corporation (NYSE:ACM)	NA
Sep-10	Reilletas LLC	Revathi Equipment Ltd. (BSE:505368)	\$5.0
Sep-10	Pease & Associates, Inc.	Labella Associates, P.C.	NA
Sep-10	Hall, Blake and Associates, Inc.	Geotechnology, Inc.	NA
Sep-10	Maple Leaf Renewables Group, Inc.	Solar Park Initiatives, Inc. (OTCBB:SOPV)	\$0.3
Sep-10	BBC Engineering Inc.	Forte And Tablada, Inc.	NA
Sep-10	Burt Hill Inc.	Stantec Inc. (TSX:STN)	NA
Sep-10	Baring Industries, Inc.	JF Duncan Industries, Inc.	NA
Sep-10	E2M, Inc.	The Haskell Company	NA
Sep-10	Gerald M. Moore & Son Inc.	Branscome, Inc.	NA
Sep-10	JBS Mechanical, Inc.	TD Industries, Inc.	\$2.2
Sep-10	Rondout Electric, Inc.	Moro Corp. (OTCPK:MRCR)	NA

Implied Enterprise Value = The implied value of 100% of the target company based upon the consideration paid in cash and stock, the net debt assumed, and the value of earnouts
NA = Not Available

Industry Valuation Metrics

Select Company Performance

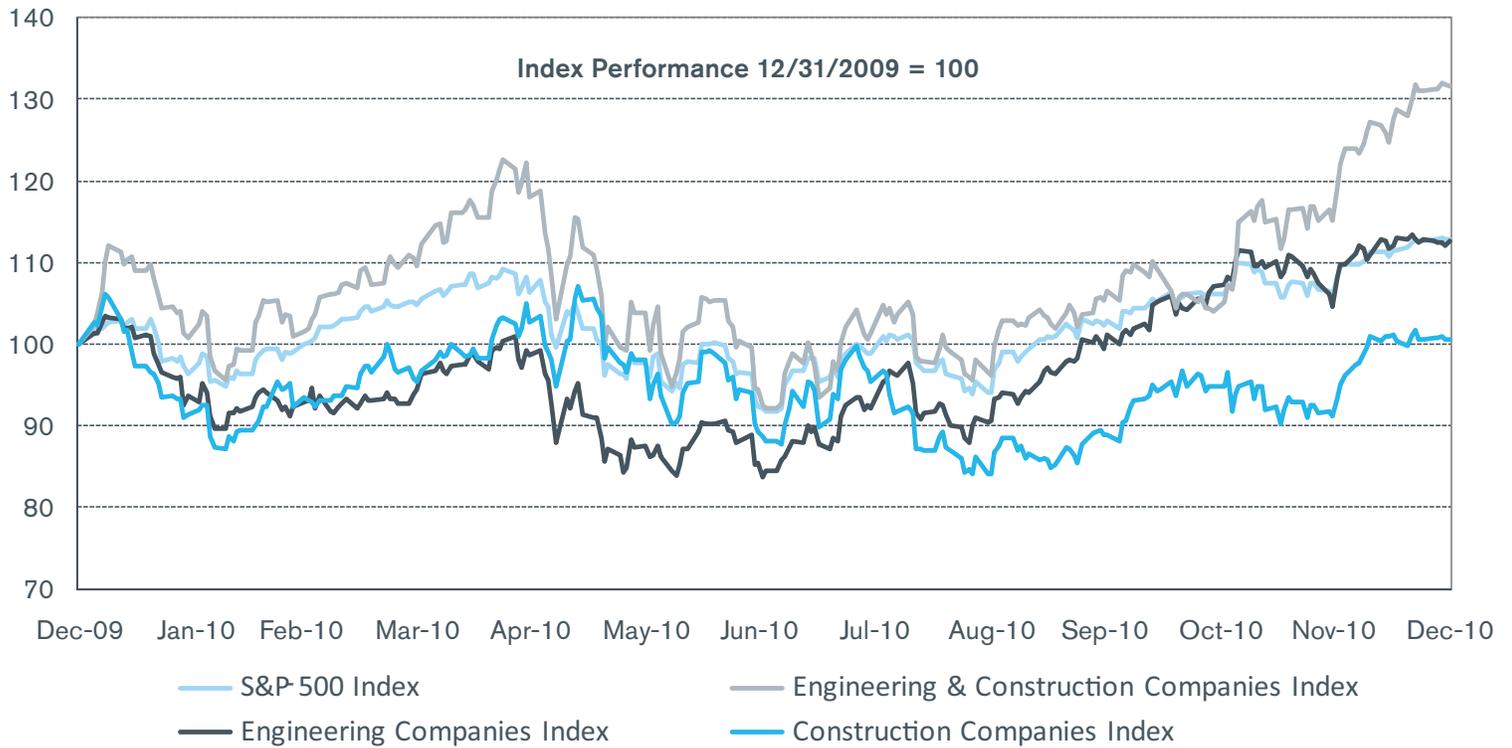
(\$ in millions, except per share amounts)

Company Information		Market Data					LTM Operating Performance			Multiples			
Company Name	Ticker	Price at 12/31/10	% of 52-Week High	Equity Value	Enterprise Value	Debt/ Total Capital	Revenue Growth	EBITDA Growth	EBITDA Margin	EV / LTM REV	EV / LTM EBITDA	EV / NTM EBITDA	
Engineering Companies													
AECOM Technology Corporation	ACM	\$27.97	90.5%	\$3,315.5	\$3,682.4	25.3%	7.0%	16.9%	6.1%	0.56x	9.2x	7.5x	
AMEC plc	AMEC	\$17.96	98.3%	\$5,949.0	\$4,909.3	0.0%	3.8%	4.8%	8.1%	1.21x	14.9x	12.5x	
Arcadis NV	ARCAD	\$23.35	98.2%	\$1,552.8	\$1,914.7	29.4%	10.0%	9.2%	8.6%	0.72x	8.4x	8.8x	
Michael Baker Corporation	BKR	\$31.10	74.5%	\$286.8	\$201.1	0.0%	7.2%	29.9%	7.9%	0.41x	5.3x	4.8x	
Stantec Inc.	STN	\$27.88	91.2%	\$1,274.4	\$1,538.2	18.8%	(5.9%)	0.3%	14.6%	1.33x	9.2x	8.6x	
Tetra Tech Inc.	TTEK	\$25.06	88.9%	\$1,547.7	\$1,454.3	8.8%	5.3%	5.9%	10.8%	1.00x	9.2x	8.8x	
							Mean	4.5%	11.2%	9.4%	0.87x	9.4x	8.5x
							Median	6.2%	7.5%	8.4%	0.86x	9.2x	8.7x
Engineering and Construction Companies													
Chicago Bridge & Iron Company N.V.	CBI	\$32.90	98.2%	\$3,263.7	\$3,051.2	4.0%	(25.8%)	(15.5%)	9.3%	0.82x	8.8x	8.2x	
Fluor Corporation	FLR	\$66.26	98.4%	\$11,846.8	\$9,831.1	1.2%	(6.7%)	(25.6%)	4.5%	0.47x	10.3x	10.8x	
Foster Wheeler AG	FWLT	\$34.52	97.5%	\$4,294.2	\$3,503.3	5.9%	(24.1%)	(25.9%)	10.0%	0.85x	8.5x	9.7x	
Jacobs Engineering Group Inc.	JEC	\$45.85	90.5%	\$5,784.0	\$4,930.9	1.6%	(13.5%)	(22.2%)	5.5%	0.50x	9.0x	8.9x	
KBR, Inc.	KBR	\$30.47	97.0%	\$4,599.8	\$3,548.8	3.0%	(14.5%)	0.7%	5.3%	0.33x	6.3x	5.3x	
Shaw Group Inc.	SHAW	\$34.23	84.5%	\$2,910.1	\$2,083.9	75.0%	(7.6%)	5.3%	5.0%	0.31x	6.2x	5.7x	
URS Corporation	URS	\$41.61	78.1%	\$3,443.1	\$3,773.7	21.0%	(9.5%)	12.0%	6.8%	0.42x	6.2x	5.3x	
							Mean	(14.5%)	(10.2%)	6.6%	0.53x	7.9x	7.7x
							Median	(13.5%)	(15.5%)	5.5%	0.47x	8.5x	8.2x
Construction Companies													
EMCOR Group Inc.	EME	\$28.98	96.9%	\$1,925.8	\$1,444.9	10.4%	(12.7%)	(24.6%)	5.2%	0.28x	5.5x	5.5x	
Granite Construction Incorporated	GVA	\$27.43	76.2%	\$1,063.6	\$968.4	29.0%	(17.4%)	(61.7%)	4.9%	0.54x	11.0x	14.0x	
MasTec, Inc.	MTZ	\$14.59	94.3%	\$1,110.7	\$1,426.9	29.3%	34.6%	45.9%	9.7%	0.69x	7.1x	6.1x	
Matrix Service Co.	MTRX	\$12.18	96.7%	\$321.6	\$279.1	0.3%	NA	NA	4.9%	0.49x	10.1x	6.5x	
Tutor Perini Corporation	TPC	\$21.41	84.0%	\$1,008.2	\$896.3	11.3%	(36.7%)	(23.4%)	6.0%	0.25x	4.2x	4.4x	
Quanta Services, Inc.	PWR	\$19.92	85.8%	\$4,293.0	\$3,855.0	0.0%	17.1%	25.9%	11.6%	1.01x	8.8x	10.0x	
							Mean	(3.0%)	(7.6%)	7.0%	0.54x	7.8x	7.8x
							Median	(12.7%)	(23.4%)	5.6%	0.52x	7.9x	6.3x

LTM = Latest Twelve Months; NTM = Next Twelve Months; Enterprise Value = (Market Capitalization + Debt + Preferred Stock + Minority Interest) - (Cash & Equivalents)
 EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; Total Capital = Market Capitalization + Preferred Stock + Minority Interest + Debt; NA = Not Available
 Note: Stock price, equity value, and enterprise value for AMEC plc, Arcadis NV, and Stantec Inc. have been converted to U.S. dollars as of 12/31/2010.
 Source: Capital IQ

Public Company Index

Engineering and Construction Public Company Indices
December 31, 2009 through December 31, 2010



Note: The indices are comprised of the companies on the prior page and are market capitalization weighted.

Engineering and Construction Industry Transactions

Fairness Opinion

Grace Pacific Corporation has merged with Mid Pac Petroleum, LLC



Financial advisor to the Special Committee of the Board of Directors of Grace Pacific Corporation

Case Study: Grace Pacific Corporation

Grace Pacific Corporation ("Grace Pacific") is the largest construction and paving services provider in the state of Hawaii. For nearly 80 years, Grace Pacific has constructed and maintained the roads and highways that have become an integral part of Hawaii's transportation infrastructure. The company also produces hot mix asphalt, construction aggregates, prestress/precast concrete, traffic and roadway safety products, guardrail blocks, and other construction related products. The company undertakes various types of projects, including airport runways and taxiways, interstate freeways, highways, bridges,

roadways, bike paths, tennis courts, driveways, and parking lots.

In January 2011, Grace Pacific merged with Mid Pac Petroleum, LLC, a leading marketer of petroleum products in the state of Hawaii. The merger creates a single company with revenues of more than \$400 million annually and more than 650 employees. Duff & Phelps served as independent financial advisor to the Special Committee of the Board of Directors of Grace Pacific and issued a fairness opinion in connection with the transaction.

Additional Representative Duff & Phelps Engineering and Construction Industry Transactions

Due Diligence

Lincolnshire Management has made an investment in Latite Group, LLC



Rendered financial and tax due diligence services to Lincolnshire Management

ESOP/ERISA Advisory Fairness Opinion

McCarthy Holdings Inc. has completed a leveraged recapitalization involving the purchase of common stock not held by the McCarthy Holdings Inc. ESOP to create 100% S Corp. ESOP-owned company.



Financial advisor to the Board of Directors of McCarthy Holdings Inc.

For more information about our industry expertise or to subscribe to Industry Insights, visit:

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About Duff & Phelps

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