



CE Midlands Annual Construction Summit

The Economy and Brexit

8 October 2019

Agenda

- ① Introduction
- ② Key topics
- ③ Q&A

Introduction

Khush Purewal

- Partner
- Head of Corporate Finance
- Lead Business and Professional Services, M&A
- 20 years at KPMG
 - Mergers & Acquisitions
 - IPO
 - Banking
 - Private Equity

Key topics

**UK Economic
outlook**

**Brexit
considerations**

Construction 4.0

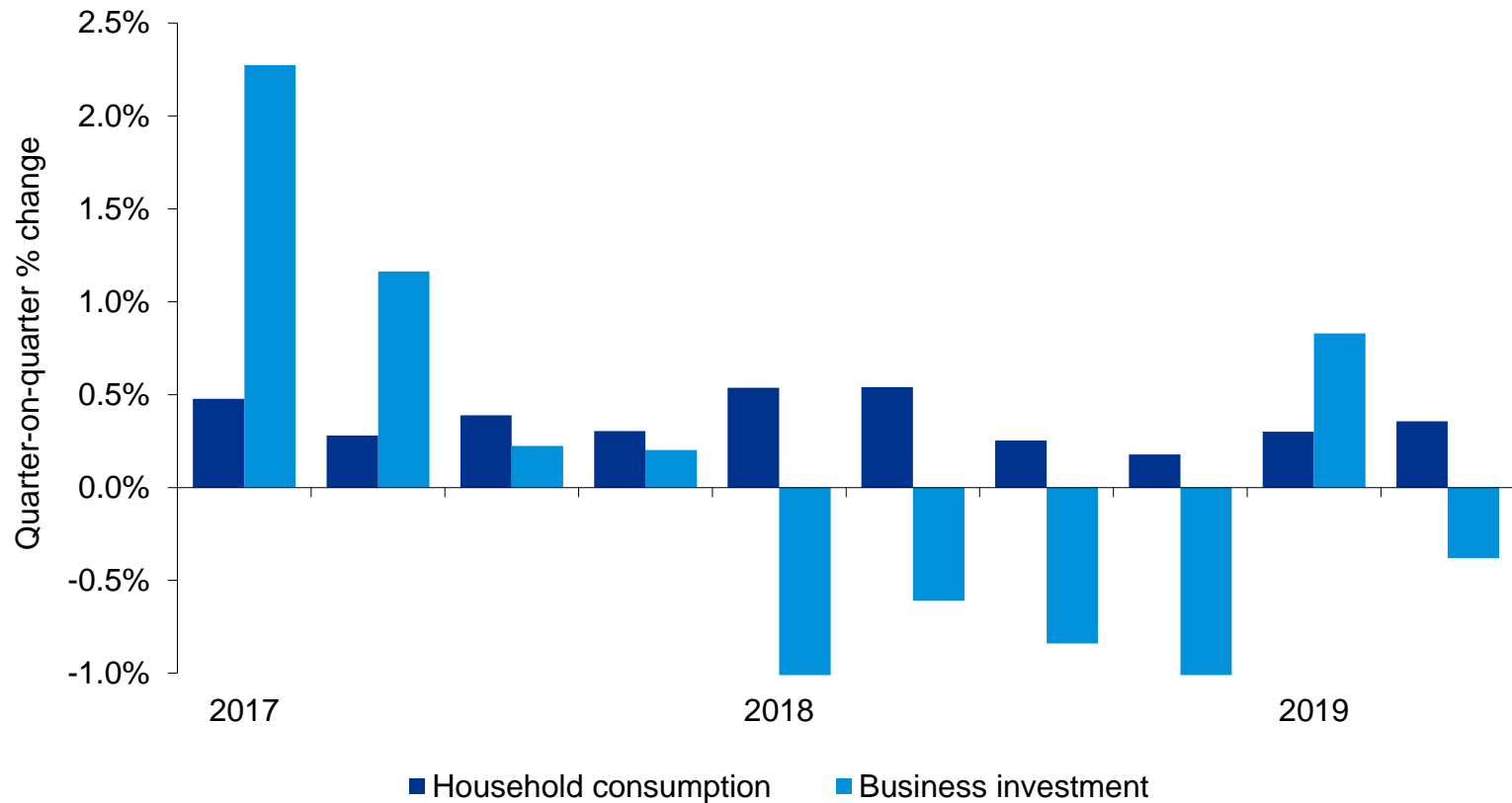
**Global mega
trends**

M&A trends



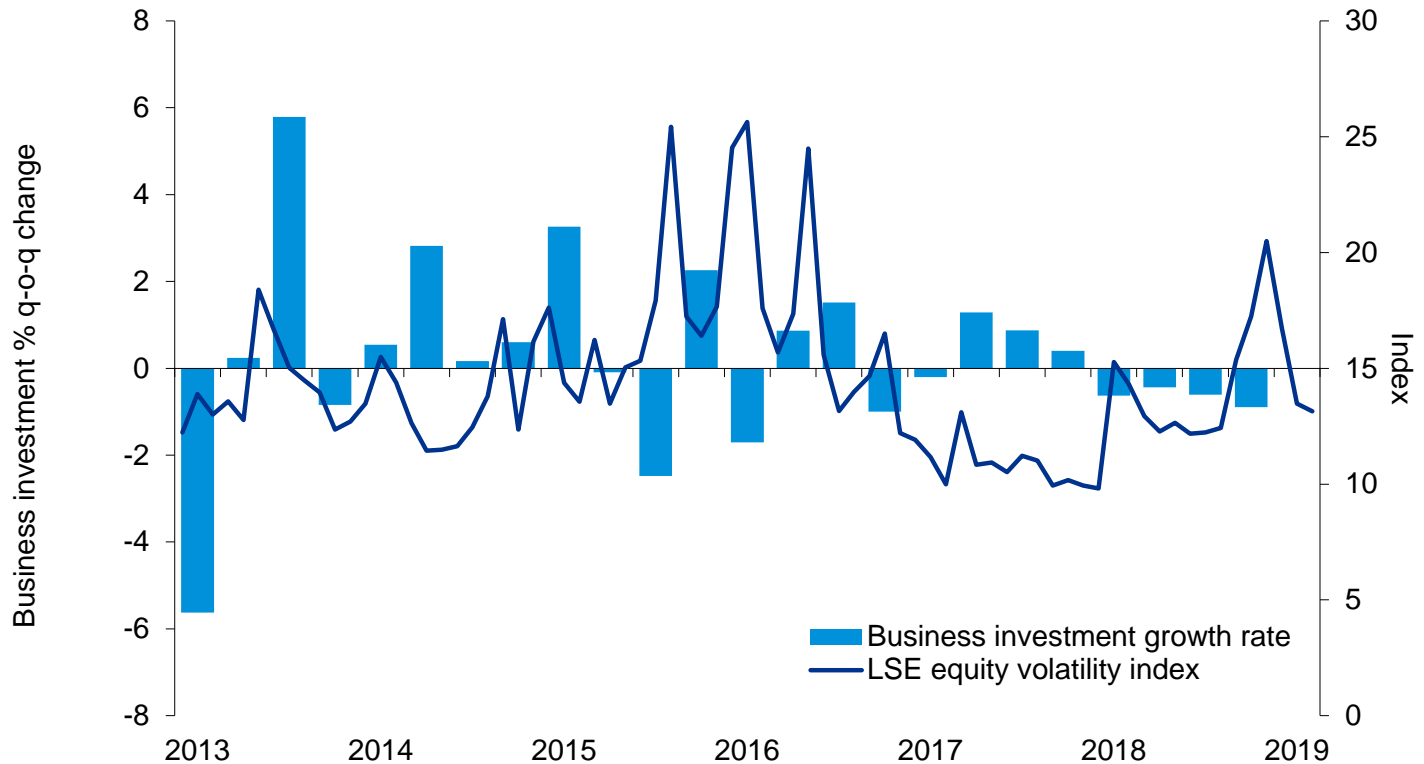
UK Economic Outlook

Consumption moderate but resilient, while business investment collapsed



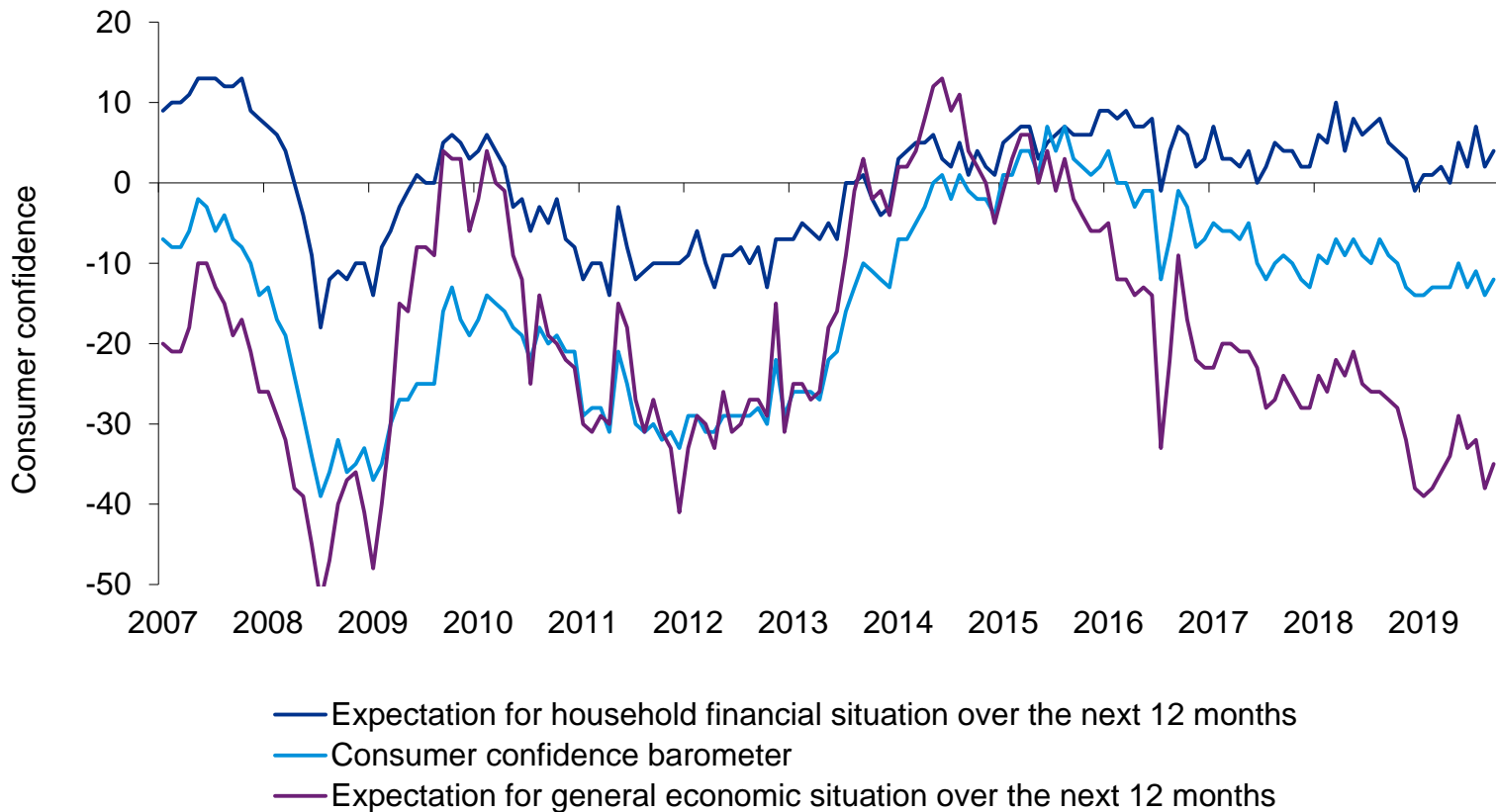
Source: ONS via Haver

Business investment has declined for 4 consecutive quarters in the face of high uncertainty



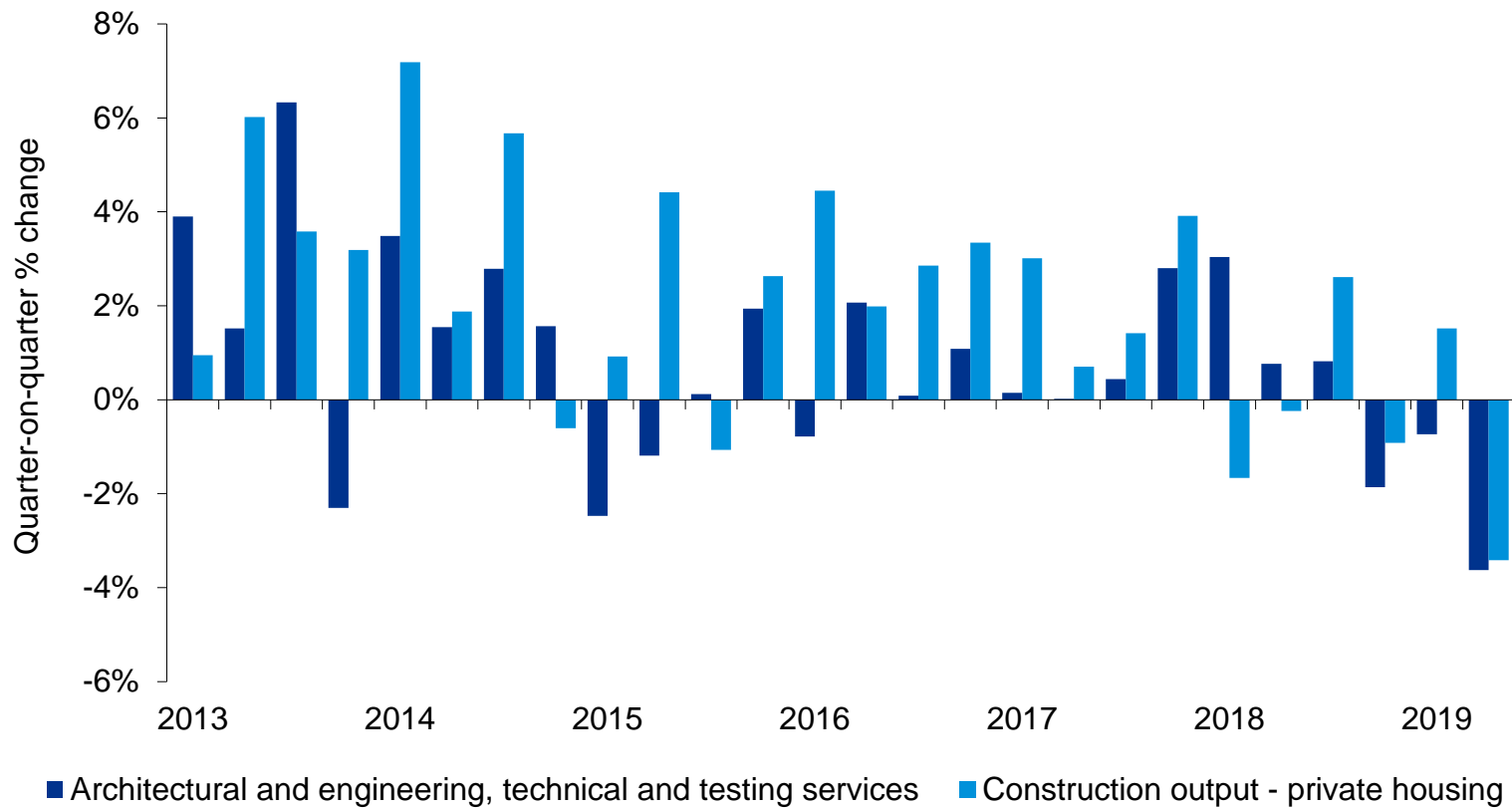
Source: ONS, FT

Consumer expectations of the general economic situation have deteriorated in recent years, but expectations for households' own finances have remained relatively stable



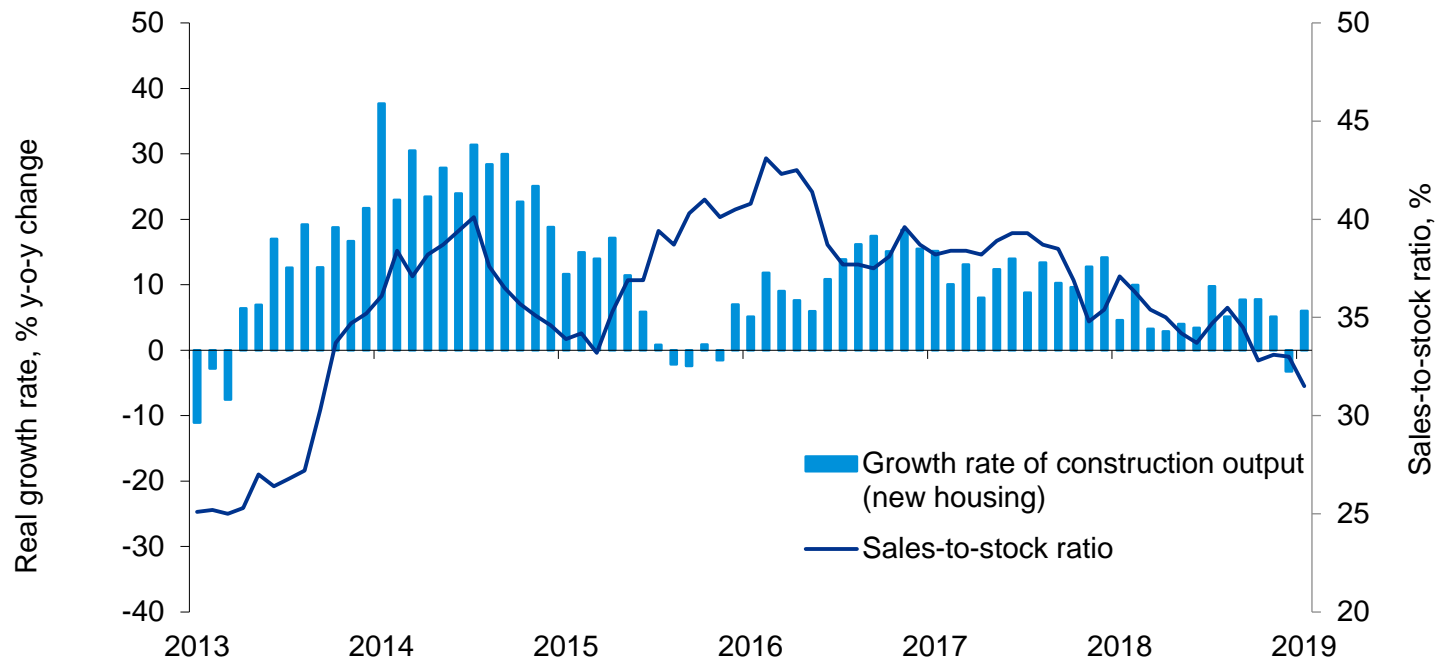
Source: GfK NOP/ European Commission via Haver

Housing construction as well as architectural, engineering and technical services were hit in Q2



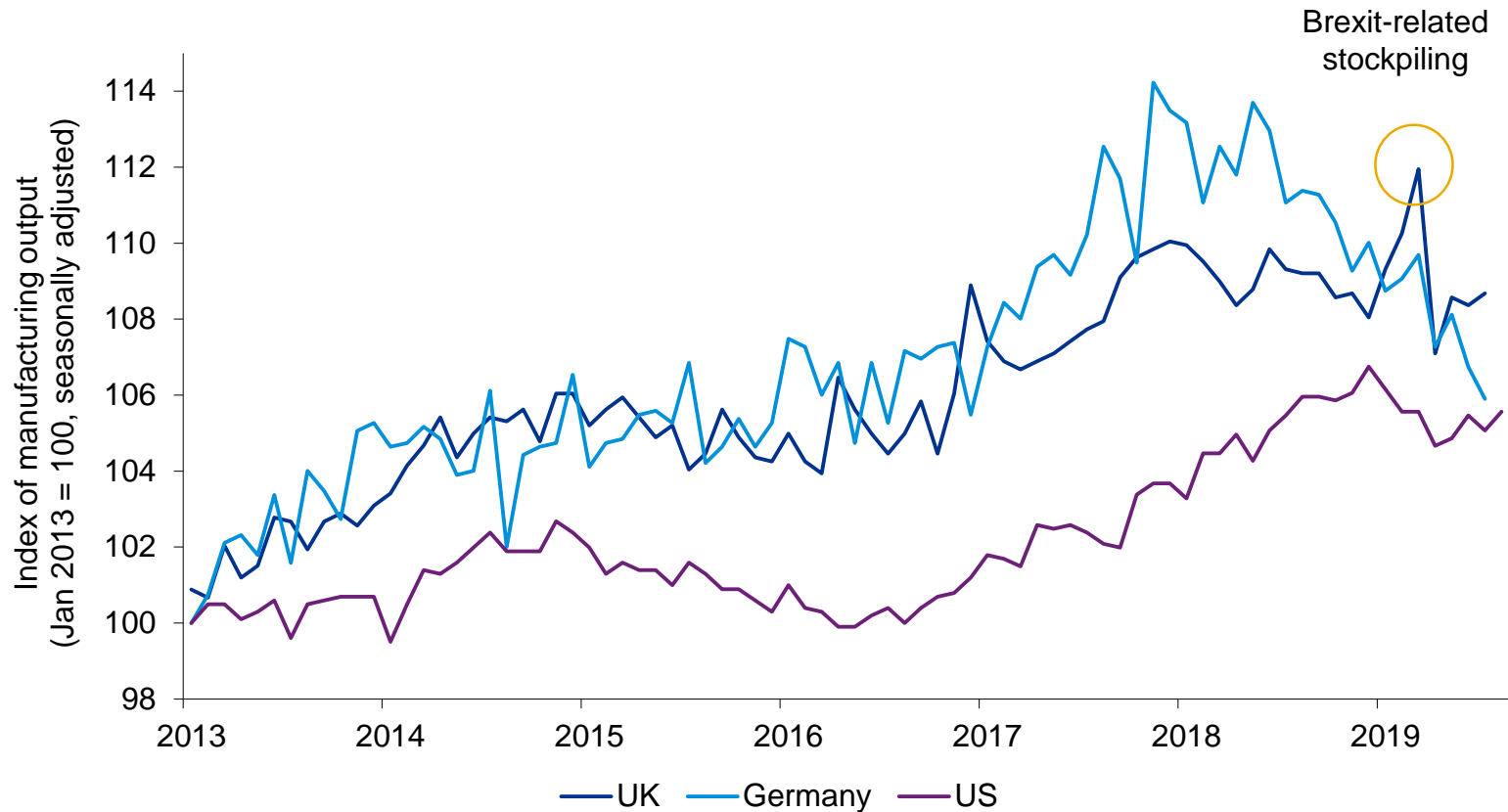
Source: ONS via Haver

Declining sales to stock ratio in the residential housing market discourages new housing projects



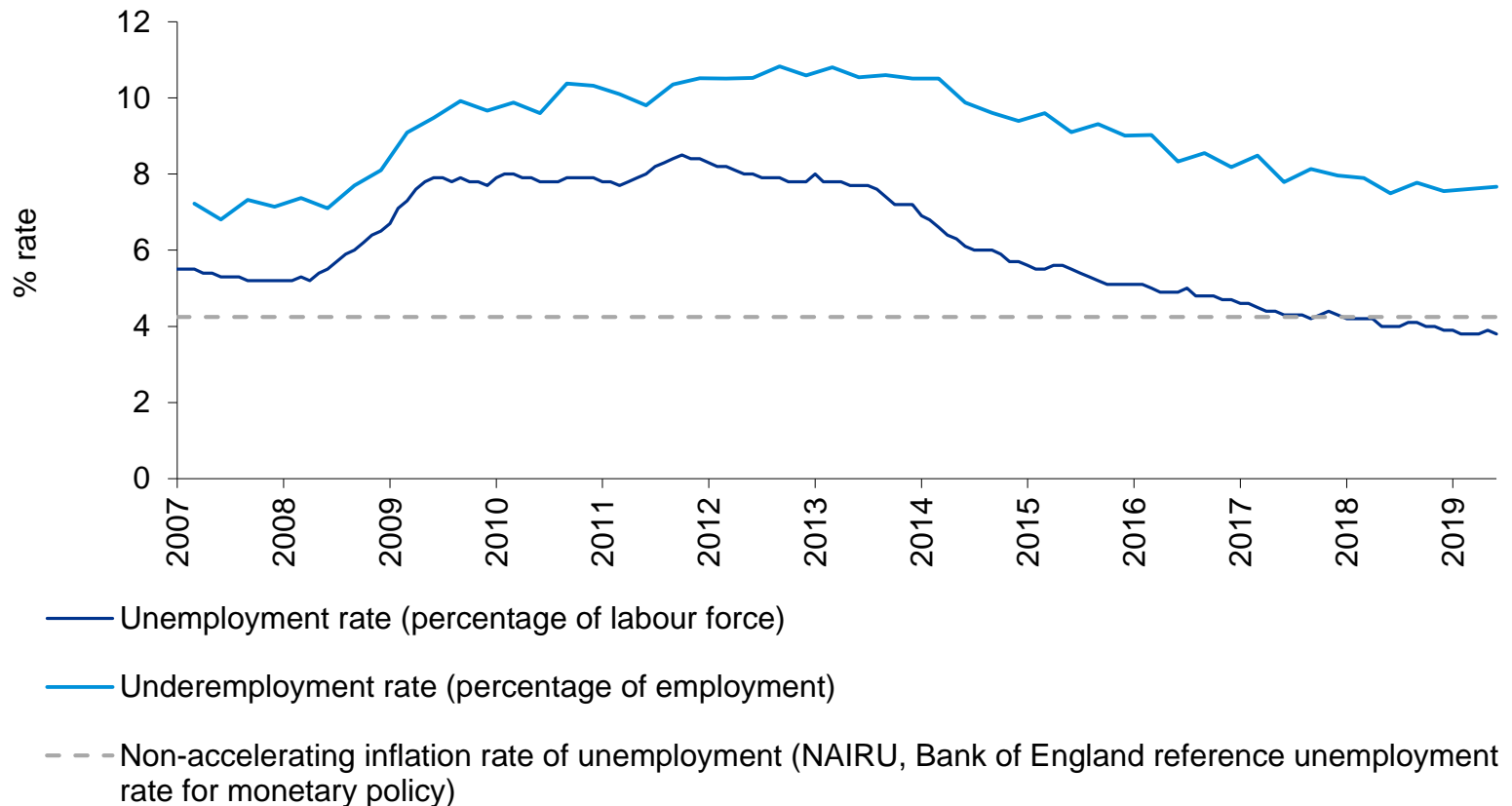
Source: ONS, RICS

Manufacturing sector slowdown in selected advanced economies



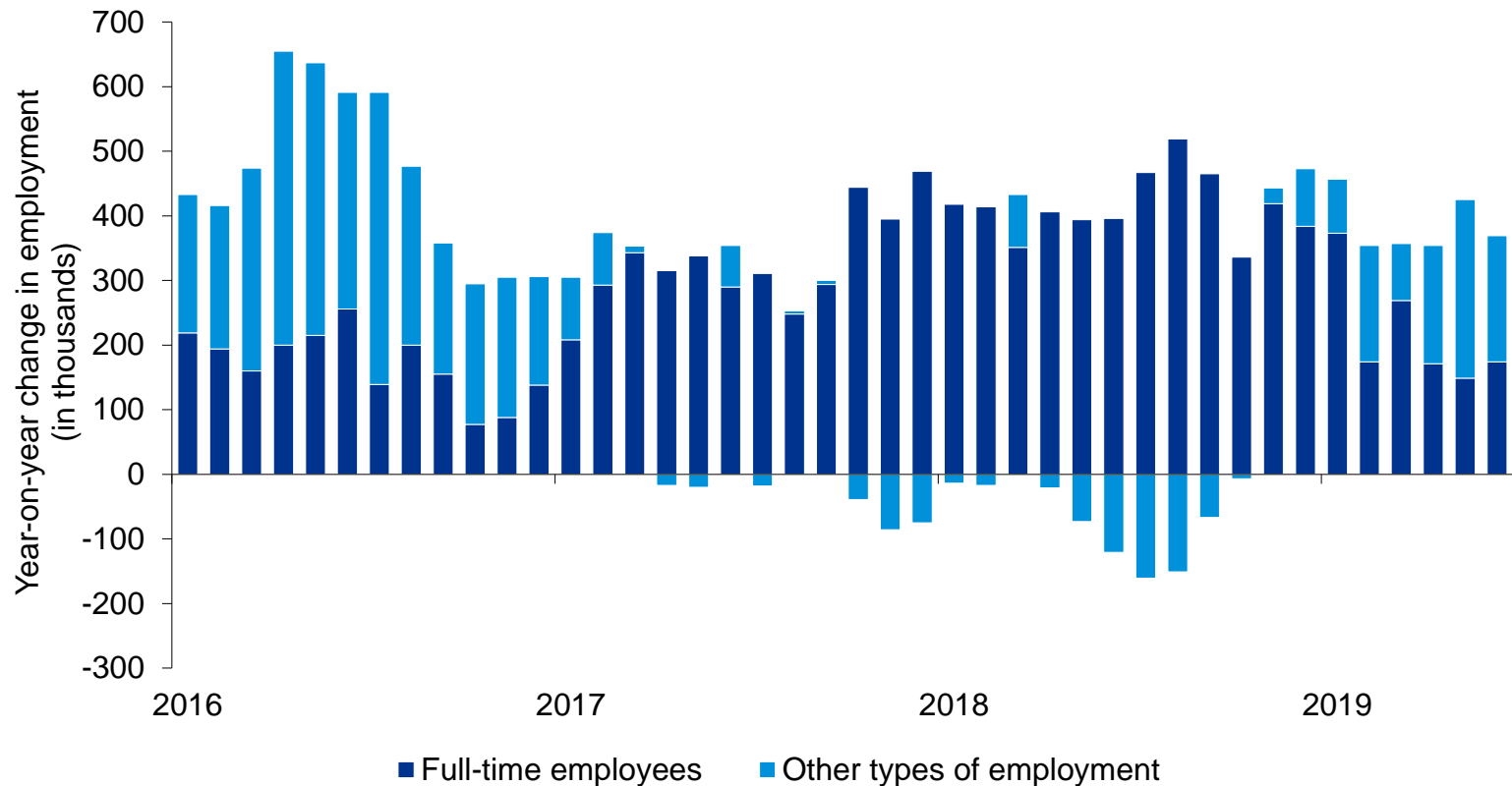
Source: ONS, Deutsche Bundesbank and Federal Reserve Board via Haver

Labour market conditions remain tight



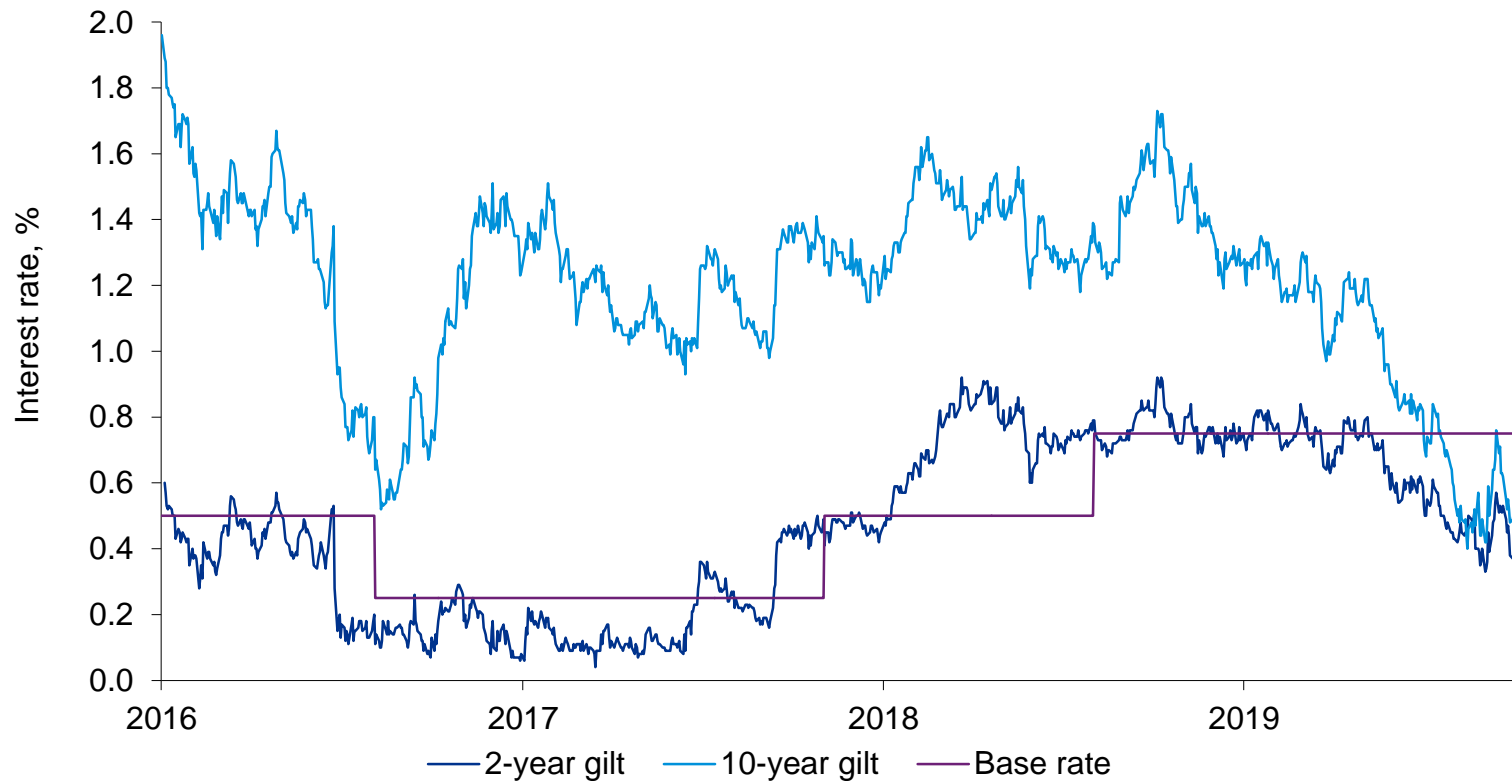
Source: ONS via Haver

Although employment is still growing overall, firms started to hold back on full-time hires from the second half of 2018



Source: ONS via Haver

The yield curve in the gilt market inverted briefly in mid-August



Source: Bank of England and Reuters via Haver



Brexit - (if, when and in what form it happens!) Considerations

Outlook depends on Brexit outcome

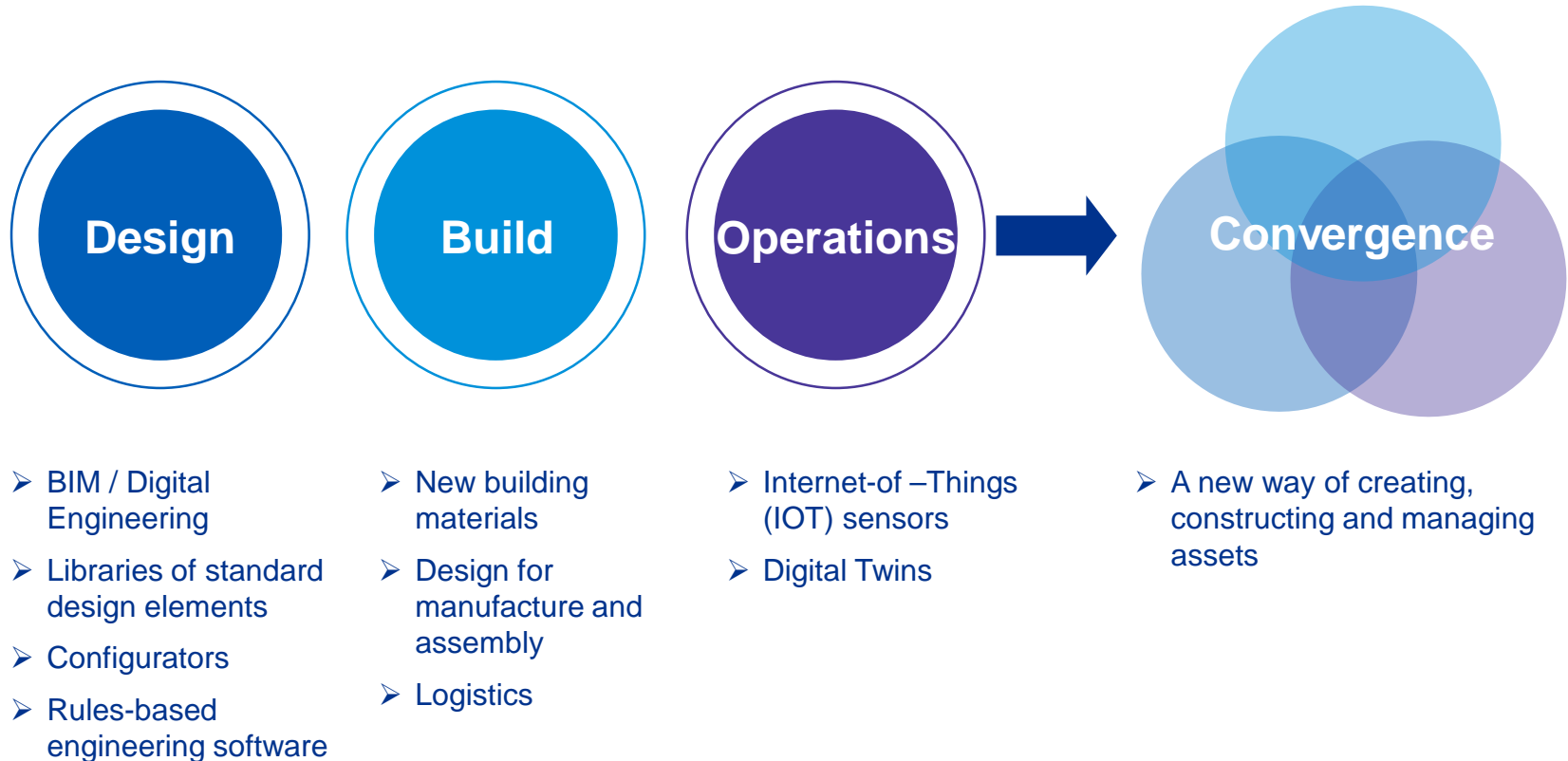
KPMG forecast – deal or no-deal scenario

	Deal 2020	No-deal 2020
GDP	1.5%	(1.5)%
Consumer spending	1.6%	1.2%
Investment	2.0%	1.7%
Unemployment rate	3.8%	4.8%
Inflation	2.0%	2.4%
Base interest rate	1.0%	0.1%



Construction ~~1.0,~~
~~2.0, 3.0~~ 4.0!

Digital transformation is leading to the convergence of traditional design, build and operations disciplines



This convergence is shown by examples of “integrated” horizontals with enormous valuations (1)

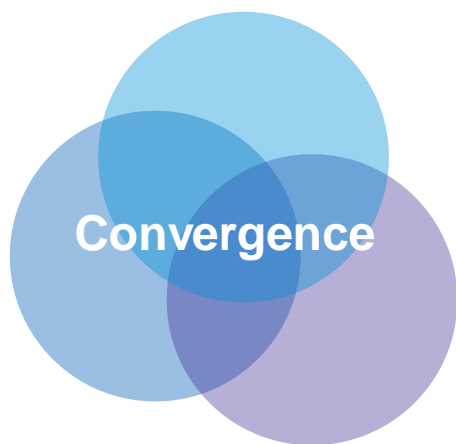
Katerra – the integrated timber-frame factory fabricator and housebuilder

- Valued by Michael Marks in 2015
- Self performs site acquisition, design, factory fabrication, assembly and sales.
- Recently stopped working with Autodesk, and started using a Dassault platform



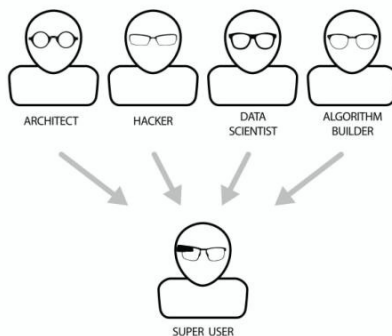
Valued at \$4.bn in Jan 19

The “asset creation companies” of the future are likely to...



...deliver assets, outcomes or “customer experiences.”

...employ “superusers” who combine old world and new world skills.



...value and protect their datasets, and their systems.

Sector wide headwinds need to be managed...

Shortage of skilled labour

Ageing workforce

Profit margin pressure

Rising cost of raw material

Reduced EU funding?

Regulation

Customs duties?

...by harnessing future technologies

Offsite
Manufacturing

Building
Information
Modelling
(BIM)

Robots

BREEAM

3D printing

Big Data

Laser
Scanning

Blockchain

Wearable
technology

Internet of
Things

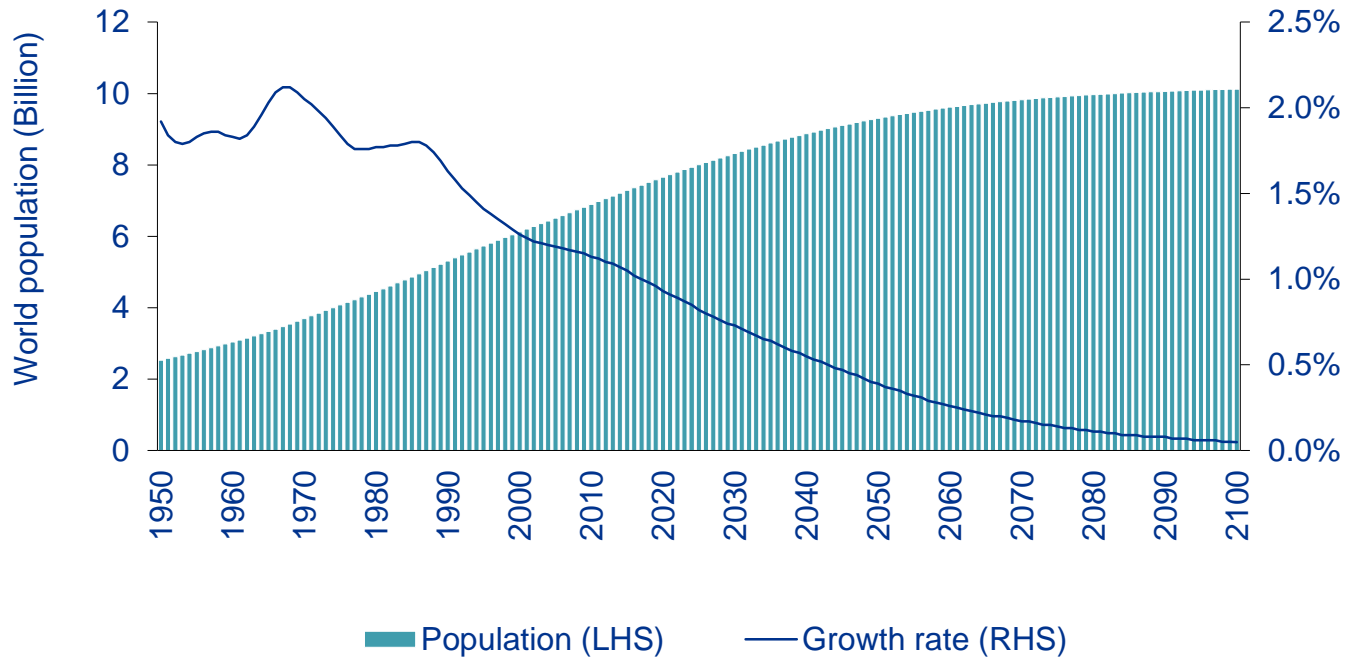


Global mega trends

Emerging trends impacting E&C

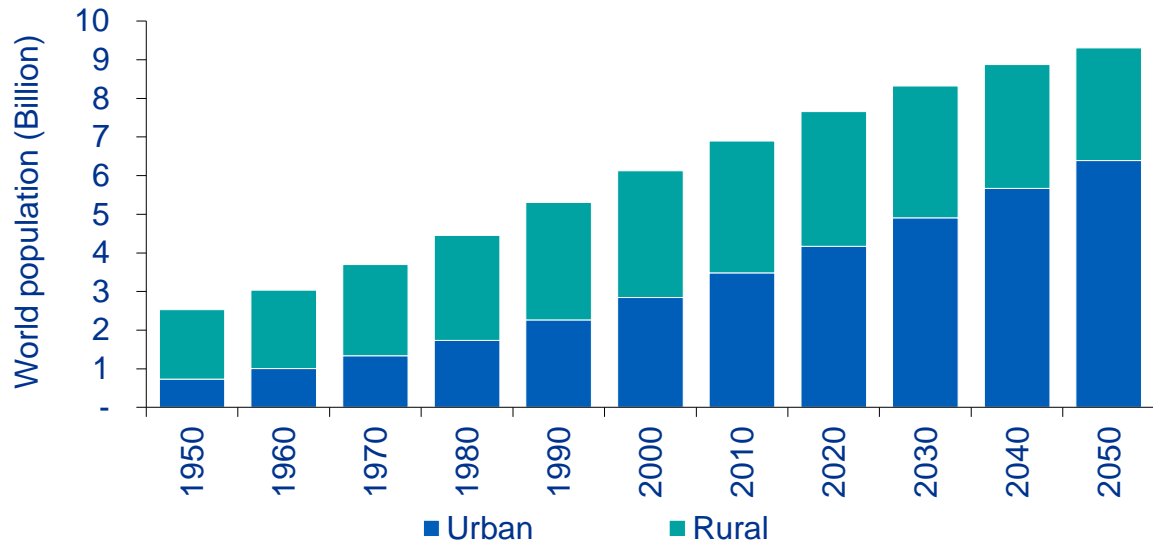
There is scope to grow...

World population growth...



Emerging trends impacting E&C

...driving urbanisation

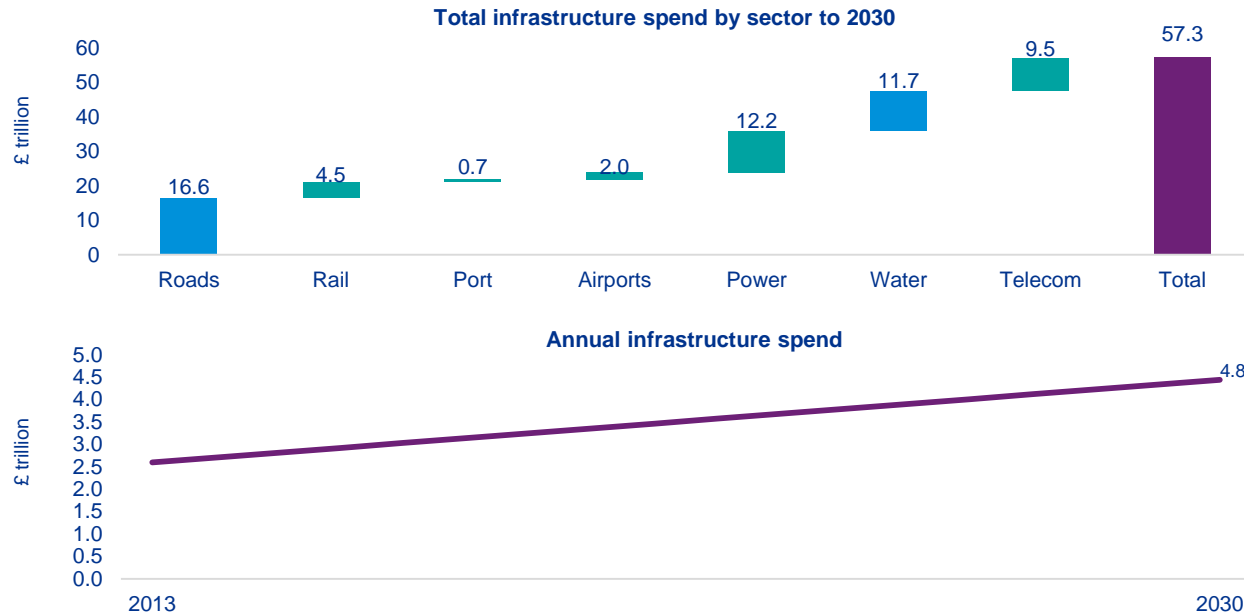


Emerging trends impacting E&C



Driving infrastructure spend

Global infrastructure investment of \$57 trillion is forecast through 2030 just to keep pace with anticipated growth



Source: McKinsey Global Institute analysis

The \$57 trillion of investment necessary is equivalent to 3.5% of projected cumulative GDP, which is broadly in line with the 3.8% historically spent (\$36 trillion has been invested over the past 18 years).

Emerging trends impacting E&C

Positive market dynamics

Large complex projects

Need for scale

UK is a global leader

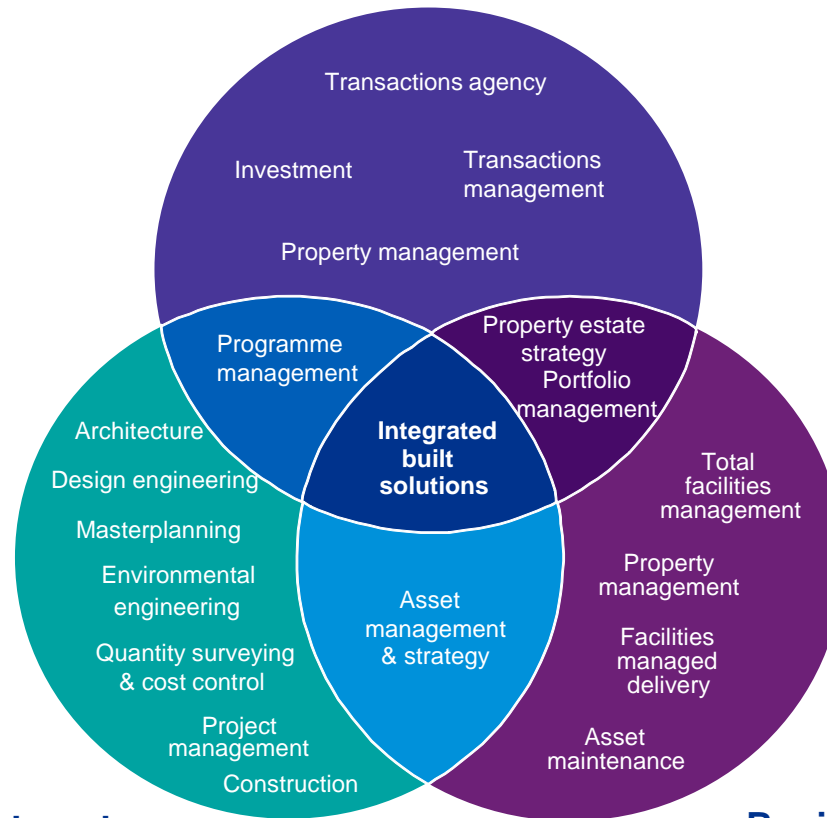


M&A trends

Emerging trends impacting E&C

Integrated built asset solutions

Real Estate



Construction and Engineering

Business Support Services



Consolidation activity has been strong and is expected to escalate

**Pursuing scale
(Sharks)**

**Mid tier
(Cross-roads)**

**Niche specialists
(Bait)**

Continued rise of the concept of an end-to-end service from single solution providers, globally, is encouraging larger providers to broaden their service offering across the full product range.

M&A and Next Gen PE will play key role in evolution

The current environment creates opportunity for global M&A activity



“Growth will be a healthy balance of both organic growth and acquisitive growth”



“We will continue to look at transactions of all sizes, we will be disciplined in our approach and we do see significant opportunity to build value”



“Acquisitions can be readily financed and we can direct significant investment into areas we see value”



“Looking to take an opportunity during this market for acquisitions, liquidity is a great opportunity maker. Valuations have come down”



“We are continuing to grow, both organically and through acquisitions. We have clear acquisition targets”

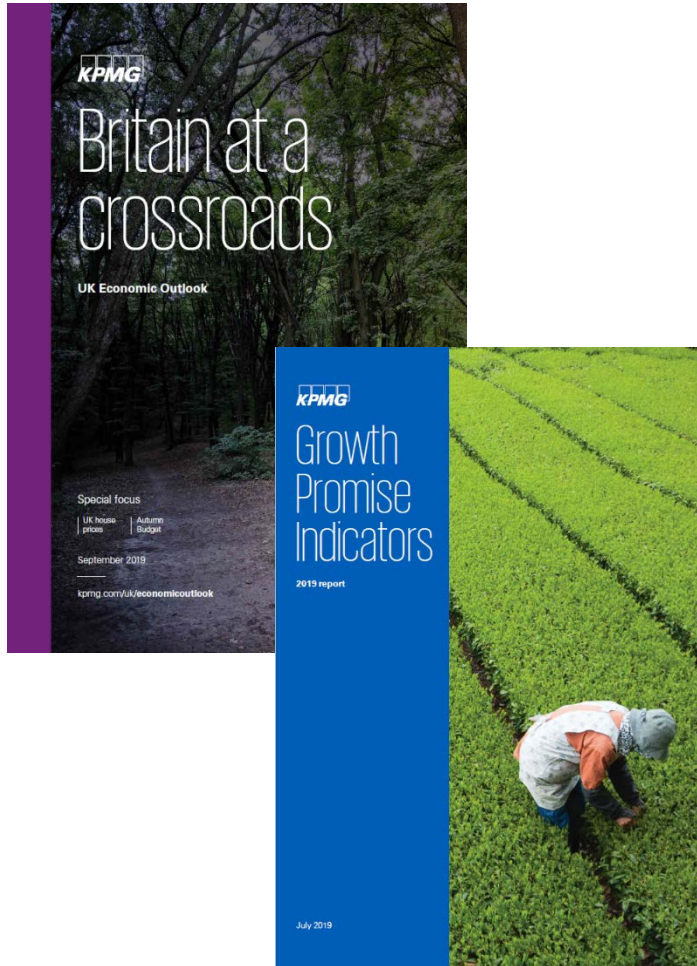


“Looking for major opportunities if they come up...present economy will create opportunities, strength of our company and the cash flow in the balance sheet will serve us well”



“We're well positioned financially to be looking be doing some in the next year, and hopefully the opportunities will come up in the period”

Further information



- Quarterly UK Economic outlook available on [kpmg.com/UK/economicoutlook](https://www.kpmg.com/UK/economicoutlook)
- The Growth Promise Indicators 2019 report is available at <https://home.kpmg/uk/en/home/insights/2019/05/the-growth-promise-indicators-2019-report.html>
- Macroeconomic Strategy website with additional material on house prices, **zombie firms**, **productivity** and more [kpmg.com/uk/en/macroeconomics](https://www.kpmg.com/uk/en/macroeconomics)



Thank you

Email: Khush.Purewal@kpmg.co.uk



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