

**ENGINEERING
INDUSTRY REPORT**

Q4 2018



WHITEHORN

FINANCING | ACQUISITIONS | SALE OF BUSINESS

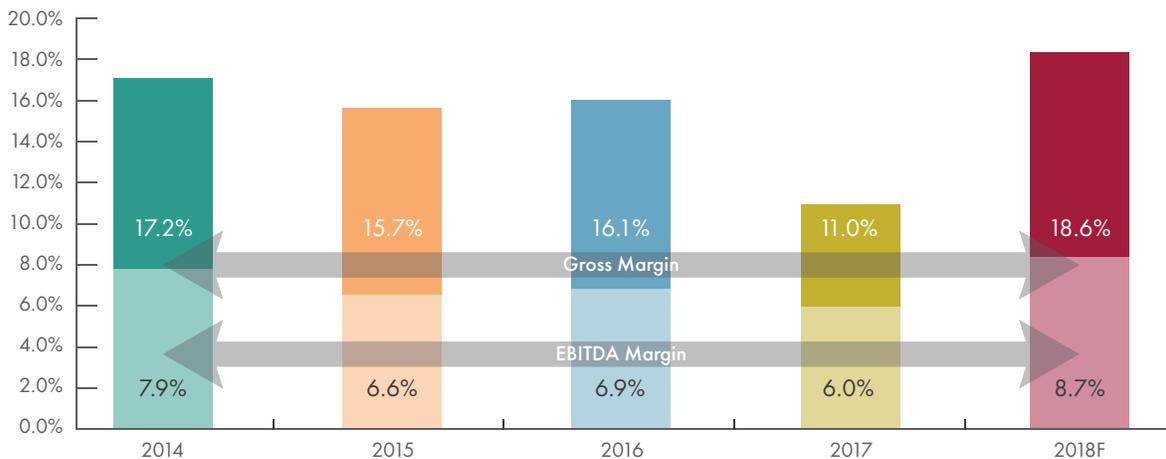
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Q4 2018 Industry Performance & Trends

Whitehorn Merchant Capital Inc.'s Engineering Services Industry Report includes performance trends and transaction activity observed in this sector, primarily focused on Canada and the United States. This industry is comprised of engineering services companies that operate within the energy, construction, and technology sectors. All financial data has been sourced from *Capital IQ*.

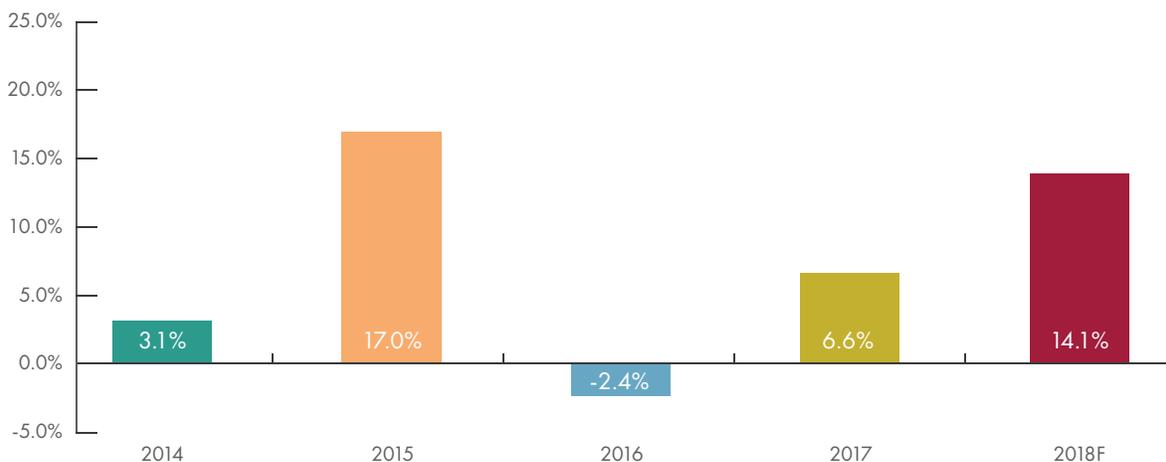
Average Gross Profit & EBITDA Margins



Note: 2018 financial performance charts and data are based upon 2018 YTD reported results plus analysts' consensus estimates for companies Whitehorn tracks.

- 2018 gross margin is forecasted to be at 18.6%, the highest gross margin forecasted in the last five years. The gross margin for 2018 has been revised higher from the previous forecasts throughout the first three quarters of 2018.
- 2018 EBITDA margin is forecasted to be at 8.7%, revised higher from the 6.0% forecasted in the previous quarter. This represents an increase from the previous years during the downturn in commodity prices.
- The average industry revenue growth is forecasted to be 14.1% in 2018, revised higher from the previous forecast of 11.4% at the end of Q3 2018. This represents strong growth year over year as activity levels continue to pick up in 2018.

Average Industry Revenue Growth



Sector Performance Updates & Outlooks

Whitehorn has constructed two engineering-focused indexes and has tracked the performance of each over a number of years. The Whitehorn Engineering Index includes professional engineering consulting firms, whereas the Engineering-Related Services Index includes companies that specialize in related services, including procurement and construction management.

Whitehorn Engineering Index								
As of December 17, 2018	Ticker	Market Cap (in \$ millions)	Price (\$/share)	Price Δ YTD	52-week		EV/EBITDA	EBITDA Margin
					High (\$)	Low (\$)		
Jacobs Engineering Group Inc.	nyse:jec	\$11,022	\$77.43	-7%	\$110.06	\$73.89	11.4x	5.8%
SNC-Lavalin Group Inc.	tsx:snc	\$8,260	\$47.05	-17%	\$61.54	\$43.73	10.8x	9.7%
WSP Global Inc.	tsx:wsp	\$6,210	\$59.46	0%	\$75.42	\$56.38	12.0x	7.6%
Tetra Tech, Inc.	nasdaq:ttek	\$3,897	\$70.39	17%	\$97.11	\$59.76	13.4x	10.7%
Stantec Inc.	tsx:stn	\$3,306	\$29.08	-17%	\$36.83	\$29.03	12.5x	9.3%
Arcadis NV	enxtam:arcad	\$1,419	\$16.18	-44%	\$30.46	\$15.97	6.8x	6.5%
NV5 Global, Inc.	nasdaq:nvee	\$1,034	\$82.85	24%	\$129.41	\$53.54	15.7x	12.5%
Costain Group PLC	lse:cost	\$558	\$5.22	-34%	\$8.33	\$5.13	4.7x	3.3%
RPS Group PLC	lse:rps	\$526	\$2.40	-49%	\$5.19	\$1.99	6.1x	9.9%
Average				-14%			11.9x	9.4%

Engineering-Related Services Index								
As of December 17, 2018	Ticker	Market Cap (in \$ millions)	Price (\$/share)	Price Δ YTD	52-week		EV/EBITDA	EBITDA Margin
					High (\$)	Low (\$)		
Fluor Corporation	nyse:flr	\$6,133	\$43.60	-33%	\$83.10	\$43.27	6.2x	3.9%
AECOM	nyse:acm	\$5,754	\$36.80	-22%	\$53.40	\$36.33	9.8x	3.8%
WorleyParsons Limited	asx:wor	\$5,564	\$12.05	-14%	\$20.31	\$11.51	20.6x	6.5%
Babcock International Group PLC	lse:bab	\$4,422	\$8.77	-28%	\$14.64	\$8.53	6.9x	12.7%
MasTec, Inc.	nyse:mtz	\$3,960	\$51.30	-18%	\$74.31	\$50.90	8.0x	9.2%
KBR, Inc.	nyse:kbr	\$2,986	\$21.20	-15%	\$29.74	\$19.27	9.7x	6.7%
Dycom Industries, Inc.	nyse:dy	\$2,249	\$71.87	-49%	\$165.94	\$69.39	10.9x	8.2%
Primoris Services Corporation	nasdaq:prim	\$1,482	\$28.95	-16%	\$38.67	\$27.82	7.9x	7.0%
Argan, Inc.	nyse:agx	\$825	\$53.01	-9%	\$63.61	\$46.71	5.3x	10.2%
Keller Group plc	lse:klr	\$608	\$8.43	-49%	\$19.12	\$8.32	4.1x	8.0%
IBI Group Inc.	tsx:ibg	\$125	\$4.00	-51%	\$9.00	\$3.74	6.4x	10.6%
Average				-28%			8.7x	7.9%

Overview - Key Takeaways

- The Whitehorn Engineering Index experienced a YTD return of -14% in 2018, compared to the 9% return achieved at the end of Q3 2018. All companies experienced a decline in share price over the last quarter, erasing the gains that were previously generated in the first nine months of the year.
- The best performer within the Whitehorn Engineering Index was NV5 Global, Inc. (NASDAQ:NVEE) with a positive YTD return of 24%. However, NV5's return was diminished compared to its 68% return in the first nine months of 2018.
- The Engineering-related Services Index experienced a YTD return of -28%, compared to a -2% return over the first nine months of the year, which can be attributed towards industry wide factors. All companies within the index generated a negative return in 2018, with IBI Group Inc.'s (TSX:IBG) return of -51% ranking it below its peer group.
- The average EV/EBITDA for the Whitehorn Engineering Index is 11.9 times, lower than the previous average of 14.6 times at the end of Q3 2018. The average EV/EBITDA for the Engineering-related Services Index is 8.7 times, lower than the 10.7 times average a quarter ago. Despite earning margins improving, the overall decrease in market cap resulted in the lower EV/EBITDA average.

Quarter in Review

Q4 2018 Key Highlights

- GM Canada announced the closure of its Oshawa, Ontario plant, affecting approximately 3,000 jobs including unionized workers and management. The workers' union, Unifor, says GM will consider options put forward by the union to keep the plant open and will respond by January 7.
- Exxon Mobil has withdrawn its environmental assessment application for a \$25 billion LNG export facility in BC.
- Bombardier is slashing 5,000 jobs and selling assets for USD \$900 million.
- SNC-Lavalin has been awarded the US\$36 million construction contract for new eight-lane bridge in Tampa, Florida.
- Stantec has been awarded a US\$35 million Maine Naval Shipyard Contract.



USMCA: The Current Conversation

"When the 3.6 per cent of market share under the USMCA is combined with similar carve-outs from the Canada-European Union Comprehensive Economic and Trade Agreement deal and the Trans-Pacific Partnership trade pact, it will amount to over 10 per cent of Canada's dairy market."

-Peter McKenna, Professor and Chair of Political Science at University of Prince Edward Island

"Donald Trump has cranked up a trade war with China and he is not about to allow Canada or Mexico to assist the Chinese to fight that war in any way. In effect, Mr. Trump is ring-fencing North America as off-limits to any Chinese trade initiatives."

-Hugh Stevens, Distinguished Fellow at Asia Pacific Foundation of Canada, Principal, Trans-Pacific Connections

"One of NAFTA's major benefits was that it allowed for integrated supply chains across North America. US automakers gained access to labor-intensive parts at lower cost from Mexico, and Mexican producers gained access to less expensive capital-intensive parts from the US. As a result, the North American auto industry improved its competitive position internationally. The USMCA will not destroy NAFTA's efficient supply chains, but it will raise their costs, thus undercutting that advantage."

-Anne O. Krueger, former World Bank chief economist, Senior Research Professor of International Economics, Johns Hopkins University

"This has happened, despite assurances that our government would not sign a bad deal for Canadians," Pierre Lampron, the organization's president, said in the statement. "We fail to see how this deal can be good for the 220,000 Canadian families that depend on dairy for their livelihood."

-Pierre Lampron, President, Dairy Farmers of Canada

"[The USMCA's] cost is placing the US in a position of unprecedented authority over its neighbours' ability to craft their own domestic and international economic agendas."

-Blayne Haggart, Associate Professor of Political Science, Brock University

"...It is dreaming in Technicolour to think that the Trump White House, or the powerful US lumber lobby, was going to settle the long-standing softwood lumber dispute to our satisfaction. That was never going to happen, no matter what Conservative Party leader Andrew Sheer thinks."

-Peter McKenna, Professor and Chair of Political Science at University of Prince Edward Island

"Our Prime Minister and negotiators had promised our dairy farmers over and over again that they would defend supply management. This doesn't look or feel like a defense of our industry. This is another erosion of the stability of our industry and it's a kick in the teeth to Canada's dairy farmers."

-Jolaine Treur, Dairy Farmer, Agassiz, British Columbia

"[Canadians] could launch a number of co-operative initiatives with US departments and agencies at the working level (i.e. not requiring Congressional actions) that could generate real economic and security gains. Key areas for co-operation include streamlined border procedures for passengers and cargo, a 21st century approach to skills recognition and work force development, a competitiveness oriented approach to energy infrastructure, and e-commerce rules that encourage innovation, support SMEs and protect consumer rights."

-Laura Dawson, Director of the Canada Institute at the Wilson Center in Washington

"The USMCA includes stronger protection of intellectual property, including patents for medications. It also outlines criminal penalties for pirating movies online and addresses duties on digital music, books, software and video games that are distributed electronically."

-Dr. M. Ray Perryman, President and CEO of The Perryman Group

Quarter in Review

What You Need to Know

General

- The new United States-Mexico-Canada Agreement (USMCA) was signed by US President Donald Trump, Canadian Prime Minister Justin Trudeau, and Mexican President Enrique Pena Nieto on November 30.
- Before signing, a group of over 40 Republican lawmakers wrote the US President, begging him to remove language written into the USMCA which pledges all three member countries to support policies protecting employees from discrimination based on sex, including pregnancy, sexual harassment, sexual orientation and gender identify. Prime Minister Trudeau defended the provisions.
- President Trump now says that the newly negotiated deal means that Mexico is going to pay for the southern border wall he promised on the campaign trail.

Auto

- Separately, the US and Canada are still attempting to negotiate an end to tariffs on steel and aluminum.
- During USMCA negotiations, Canada and the US drafted a side letter which outlines details of an agreement to exempt a certain amount of Canadian auto parts and vehicles from America national security tariffs, should Trump decide to impose them.
- Should Washington impose tariff on cars, Canada will still be able to export 2.6 million passenger vehicles to the US every year.
- This side letter is part of the reason Canada is willing to sign USMCA while steel and aluminum tariffs are still in place – guaranteeing no auto tariffs is more important.
- Mexico had to give up a log on auto manufacturing to protect a trilateral deal and avert Trump's threatened tariffs.
- 75% of North American auto content had to come from USMCA member countries – up from 62.5% under NAFTA.
- 40-45% of content must be made by workers earning at least US\$16 per hour.
- New minimum wage requirements could make Mexico a less desirable destination for big auto companies.

Oil & Gas

- Article 605 of NAFTA, which mandated that the proportion of oil exported by Ottawa to the US must remain the same over a representative period, has been excluded from USMCA, meaning Canada should be permitted to expand its exports to markets beyond the US.
- USMCA will make it easier for exporters to qualify for duty-free

treatment on shipments to other USMCA parties. Specifically, diluent, a thinning agent applied to Alberta's heavy oil which was subject to tax under NAFTA, will no longer be taxed as long as it makes up less than 40% of the total oil shipped.

- Alberta's Minister of Economic Development said that this would amount to \$60 million in savings for energy sector producers.

Online Shopping

- Canadian shoppers buying US goods online will be able to buy more duty-free than they can currently.
- Imports below \$150 will not be subject to duties, up from the current \$20; items under \$40 will be exempt from sales tax.
- Americans buying Canadian or Mexican goods will see their limit decrease from US\$800 to US\$100.
- Online retailers will benefit; small businesses may be at a disadvantage as they are required to collect GST and PST.

Settling Disputes

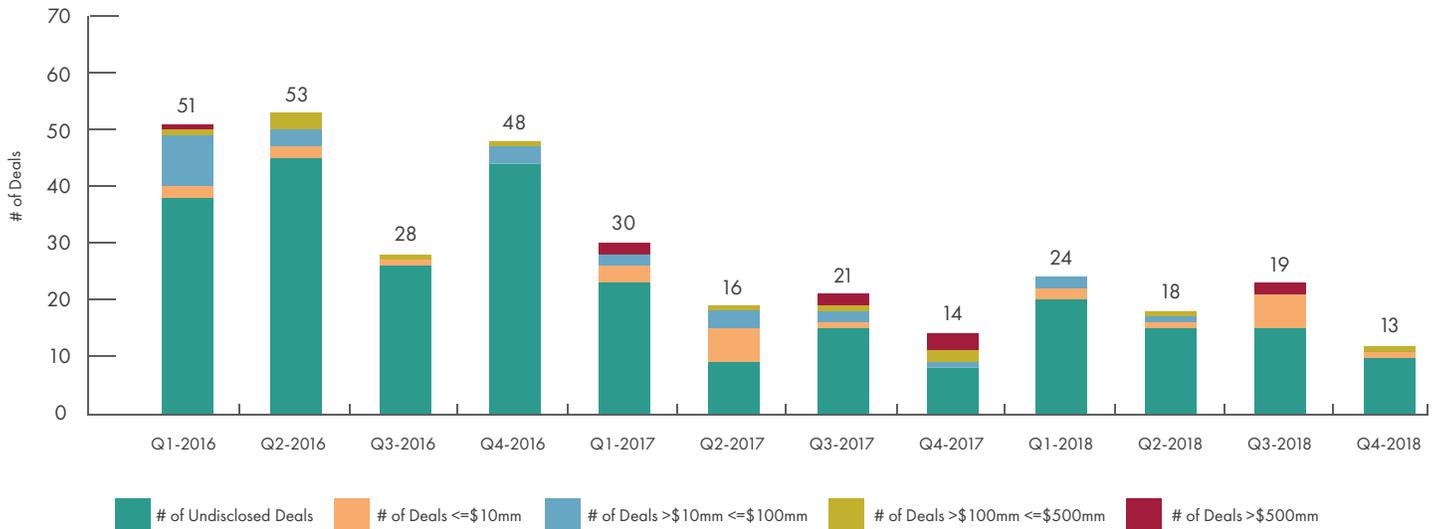
- NAFTA's Chapter 11 has been excluded from USMCA, so Canada and US corporations no longer have mechanism to sue governments whose trade practices they think are unfair.
- Mexico will have some Chapter 11 powers but in limited form.
- National governments will still be able to settle trade disputes using Chapter 19's independent panels.
- Chapter 19's survival seen as a win for Trudeau and a loss for Trump.

Quarterly Poll

As Q4 2018 ended, federal equalization payments and Alberta separation began making headlines, partially fueled by comments from Quebec's Premier. For our inaugural survey, we ask our network to weigh in on this topic. Head to our homepage (whitehorncapital.com) to answer a few questions and check back here next quarter for the results!

North American Engineering M&A Activity

Quarterly M&A Profile

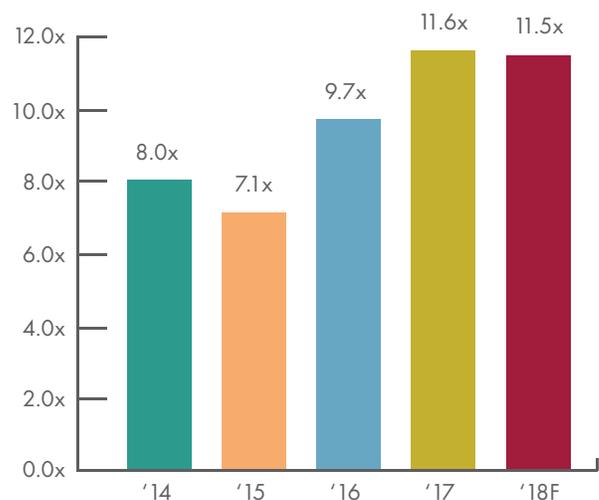


Q4 2018

- There were 13 M&A transactions tracked in Q4 2018, compared to the 19 transactions tracked in the previous quarter and the 14 transactions tracked in Q4 a year ago.
- A transaction to highlight this quarter was North American Construction Group Ltd.'s (NYSE:NOA) \$199 million acquisition of Aecon Group Inc.'s (TSX:ARE) contract mining business. This represents the first M&A transaction involving Aecon after the government of Canada rejected its sale to Chinese company CCC International Holding Ltd under the Investment Canada Act.
- The total disclosed transaction value in Q4 2018 is \$200.7 million, compared to the \$643.3 million tracked in Q3 2018.

The forecasted EV/EBITDA multiple in 2018 for publicly traded engineering companies tracked is 11.5 times, consistent with the previous quarter's forecast. The 2018 forecast is similar to 2017's actual multiple of 11.6 times, which demonstrates that public valuation has remained consistent over the most recent two years.

Average EV/EBITDA of Publicly Traded North American Engineering Companies



Recent North American Engineering Transactions

The table below summarizes a selection of recently closed and announced transactions in the Engineering sector involving companies in North America that are active in mergers and acquisitions. Transactions this quarter include expansions into new geographies and to increase service areas.

Date	Acquirer	Acquirer Location	Target	Target Location
December, 2018	Ramboll Group A/S	Copenhagen, Denmark	O'Brien & Gere Limited	Syracuse, NY
	<i>Acquisition of engineering services, construction and operational services provider.</i>			
December, 2018	WSP Global Inc. (TSX:WSP)	Montreal, QC	Irwinconsult Pty Ltd.	Southbank, Australia
	<i>Acquisition of engineering consulting services provider with offices worldwide, financed by WSP's cash and existing credit facilities.</i>			
November, 2018	NV5 Global, Inc. (NASDAQCM:NVEE)	Hollywood, FL	Chi Engineering Services Inc.	Portsmouth, NH
	<i>USD \$55 million acquisition of engineering services provider in engineering, procurement, and construction management for the LNG, Natural Gas, and LPG industries.</i>			
October, 2018	Russell Industries Corp.	St. Catharines, ON	Synex International Inc. (TSX: SXI)	Vancouver, BC
	<i>Acquisition of consulting engineering services provider operating electric power facilities, water resources and environmental engineering projects.</i>			
October, 2018	STRACON S.A.C.	Lima, Peru	Dumas Contracting Ltd.	Toronto, ON
	<i>Acquisition of underground mining services provider including mine construction, development, engineering and production with operations worldwide.</i>			
October, 2018	WorleyParsons Ltd. (ASX:WOR)	Sydney, Australia	Jacobs Engineering Group Inc.'s (NYSE:JEC) Energy, Chemical and Resources business	Dallas, TX
	<i>USD \$3.3 billion acquisition of energy, chemical and resources arm to complement existing service offerings.</i>			
October, 2018	Stantec Inc. (TSX:STN)	Edmonton, AB	Wood & Grieve Engineers Ltd.	Perth, Australia
	<i>Acquisition of building engineering focused consulting services company with over 600 engineers to expand service offerings and to penetrate new sectors in Australia.</i>			
October, 2018	North American Construction Group Ltd. (NYSE:NOA)	Acheson, AB	Aecon Group Inc.'s Contract Mining Business	Canada
	<i>\$199.1 million cash acquisition of heavy construction equipment fleet and related assets to further expand operations, and is expected to provide over \$220 million in additional annual revenue capacity.</i>			

Whitehorn Merchant Capital is an independent, Western Canadian financial advisory firm that provides business owners and management teams with capital raising, acquisition, and sale of business transaction solutions.

Our Services

Whatever milestone transaction you are considering, Whitehorn's leaders can guide you through the process. We have the network in your industry and the experience to implement a tailored, effective strategy for you and your business.



The Whitehorn Advantage

Transaction Management

Whitehorn's senior professionals will lead your transaction from initiation to closing. We will support you and your transaction so you can ensure your business performs through closing, which is critical to obtaining an industry leading valuation.

Marketing and Presentation

Whitehorn creates comprehensive, industry leading marketing materials which help buyers and investors understand your business, your competitive advantages, growth potential, and unique value proposition.

Industry Focused Network

Whitehorn knows the buyers and investors in your industry. We know which strategic and financial parties are active in the market today, the transactions they've done, what they want, and what they're willing to do.

Maximizing Value

Maximizing your value maximizes our value. By presenting your business in the best way possible, to the most motivated buyers and investors, we will add significant value to your transaction.

Contact Whitehorn today for expert advice on accessing capital, planning for business growth, and addressing business succession. We look forward to helping you reach the achievement of your goals.

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