

Introduction

Deloitte is pleased to present *European powers of construction (Eproc) 2009*, our seventh annual publication which identifies the 100 largest European construction companies by construction revenue and provides insights into the current marketplace.

The data for this publication has been collated using public sources such as company annual reports and websites, Amadeus, Datamonitor, Euroconstruct, Factiva, Mergerstat and Onesource. Alongside our analysis of this data, we provide commentary from Deloitte industry specialists throughout Europe.

Setting the scene – Infrastructure and the economy

Following the onset of the 2008 credit crunch, 2009 has been marked by recession. Popular press reports suggest that the construction sector has been hit harder than most.

However, the construction sector is diverse and provides comprehensive support services to a range of customers in numerous markets around the globe. Utility networks demand ongoing maintenance and improvement; and renewable and carbon capture technologies, water management and energy security are emerging areas for construction companies to generate revenue in the longer-term. Additionally, accelerated government spending has assisted the prevention of a more serious downturn in the sector to date. As such, trading during the recession is tough and will undoubtedly remain competitive in 2010. Beyond 2010, much will depend on how the public sector reacts, as much as the recovery of the private sector.

Leaders of the pack

French company VINCI continues to lead the pack – topping the 100 largest European construction companies with FY08 construction revenues of over €30bn (compared to €26bn in FY07). The UK continues to dominate the top 100, with more companies listed than any other country. In fact, roughly a quarter of all companies listed are headquartered in the UK.

However, France dominates the top 10 in terms of construction revenue, with three companies listed, followed by Germany, which has two. No other country has more than one company in the top 10, although if total revenue were to be taken into account (as demonstrated in the top 30 listed on page 12) Spanish companies come to the fore.

Overall, 45 companies reported construction growth during the year, compared to 75 companies for the same period last year. STRABAG of Austria reported the largest growth, generating a further €3bn of construction revenues.

Meet the senior executives

An important regular feature of *Eproc* is our interviews with senior industry executives across Europe. This year we spoke to Joachim Müller, Chief Financial Officer (CFO) of Bilfinger Berger; Marcelino Fernandez Verdes, President and Chief Executive Officer (CEO) of Dragados (ACS Group); Antonio Mota, Chairman of Mota-Engil; and David Mackey, President and CEO of P Elliot & Co. We would like to thank them for their contributions and think you will agree that they provide an interesting insight into their organisations.

Expert view from Deloitte

Although the infrastructure sector has been supported by government spending, it has also been marked by the downturn in market liquidity. In reviewing the impact of the downturn, *Eproc 2009* includes a range of articles on current industry themes and trends:

Different geographies, similar problems and responses

In assessing the impact of the recession, the views of small- and medium-sized firms provide a useful insight into the extent of the downturn. Having spoken to a number of such companies across Europe, reactions to the economic situation were not dissimilar and recurring themes emerged. With respect to actions taken, a mix of risk management, working capital management, cost controls, staff retention and training appear to be the main themes identified by businesses. However, the key risk for the industry may actually be price reductions, as rival businesses seek to maintain their staff utilisation at the expense of profit margins. Therefore, customer loyalty and management are becoming increasingly important factors for businesses to maintain their market position.

Survival of the fittest – The view of an insolvency practitioner

In a market so competitive that even insurance cover for construction companies has, on occasion, been at risk of being withdrawn, the focus on management guiding businesses through the current troubled economic waters is critical. From past experience, there are two main areas that a construction company must excel in during a recessionary slump if they are to survive. First, they must focus on cash collection/working capital, and second, they must ensure strong corporate governance and risk management.

Working capital management – A consultant's response

The impact of the recession has focused companies' attention on maintaining profit margins. Whereas in a boom, better margins might be generated through organic growth and expansion, recessions emphasise the importance of good internal control – and in particular the management of working capital. The key drivers to achieving good working capital in this market include managing customer payments, accounts payable and inventories. It is by managing these three areas effectively that construction companies can ensure their liquidity is good; provide transparency to banks (a critical consideration as lending is still patchy); and ensure a competitive edge within the industry.

Cost reduction and employee expenses

Cost reduction during a recession is an important technique for ensuring liquidity and stabilising working capital. With market movements empowering buyers and encouraging more high-risk contracting strategies, managing cost is key to ensuring sustained profitability until the market recovers. However, the implementation of this cost management, as well as deciding how it should be managed and focused, will distinguish whether it will succeed in best preparing a business for eventual recovery.

Financing PPP/PFI opportunities across Europe

The importance of increasing public spending during a recession to bolster and maintain construction companies should not be underestimated. As private finance initiatives (PFIs) and public-private partnerships (PPPs) have sustained construction company growth and sector employment over the past few years, it is significant that these projects have not suffered the same regression as say house-building. However, there is an ongoing struggle in the PPP/PFI market between the positive effects of increased public sector commitment and spending, versus the negative effects of the financial crisis and the unavailability of credit. Overall however, it appears that the increase in public spending has protected the sector.

Country profiles

In this section of *Eproc*, we present key data on market statistics, trends, top construction companies, the PPP/PFI market, and merger and acquisition (M&A) activity on a country-by-country basis.

Finally ...

We hope that you find *Eproc 2009* about trends, perspectives and analysis of the past year in the construction sector of interest, and welcome your thoughts or questions about any of the topics covered.

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