# Meet the senior executives

## In this year's edition of *Epoc,* we have interviews with senior executives from four of Europe's construction companies.

## First we hear from Joachim Müller, CFO of Bilfinger Berger; second from Marcelino Fernandez Verdes, President and CEO of Dragados (ACS Group); third from Antonio Mota, Chairman of Mota-Engil; and finally David Mackey, President and CEO of P Elliot & Co.

**Joachim Müller, CFO of Bilfinger Berger, Germany**

**Bilfinger Berger describes itself as a multi-service group. Could you outline your business model and unique selling points?**

Bilfinger Berger is an internationally active construction and services group that provides comprehensive solutions for real estate, industrial plants and infrastructure projects. In addition, as a private partner to the public sector, the group develops social and transport infrastructure projects on the basis of long-term concession contracts. Our services range from consulting, development, design and financing, through to turnkey construction, as well as maintenance and operation. Our company's know-how covers the entire life-cycle of buildings and facilities, and offers the basis for the development of sustainable solutions, which generate additional value in the long-term.

The strength of our services division makes us more independent from the cycles and risks commonly associated with project business, while our international orientation means that we are better able to deal with economic weakness in individual markets.

**How important is traditional construction within this business model?**

Although we do not intend to expand our construction activities, it makes good strategic sense to retain it in our portfolio. Synergies are an important factor in the success of our group. The complementary nature of our competence in both services and construction is an advantage in competing for major infrastructure projects.

Our success in the concessions subsector is also based on collaboration with our construction units; conversely, many interesting construction projects would be difficult to win without our concessions activities. In addition, our building and facility services units ideally complement each other to offer a complete package for real estate properties.

**What effect is the current financial and economic crisis having on Bilfinger Berger in Germany, and worldwide?**

We had a successful financial year in 2008 and can show strong figures for the first months of the current year. Naturally, we are also experiencing the effects of the downturn, but think that we are well prepared for the crisis, and the group have no short-term refinancing needs. Furthermore, we have a large order backlog in the construction business and long-term framework agreements in the services business, which help protect us from potential surprises.

**What are the main internal challenges facing Bilfinger Berger in light of the current economic situation?**

We are monitoring the performance of our clients – especially in the services business – very closely, not only in relation to their business practices but also to their payment behaviour. Furthermore, under current market conditions we are on the lookout for attractive acquisition opportunities. Internally, we are doing everything we can to maximise operational cashflow because internal funding is by far the best method of financing at the moment.

**Which regional markets and business areas are you focusing on in the current climate?**
We are particularly focusing on the services sector: facility, power and industrial services. We can certainly see that in power services, the past six months have been very successful. Our regional focus still lies in Europe, particularly central and northern Europe. If you look at our construction activities, there is also the Australian market, which accounts for 25% of our business.

**Have you noticed any positive effects from the stimulus packages that many countries have implemented?**
In many countries, the stimulus packages for infrastructure, climate and environmental protection projects are generating demand for our services. But the content of the individual stimulus packages varies greatly in terms of the kinds of measures they aim to support. Of the short-term measures, some may be interesting for our facility services division, but we are more interested in the larger investments. Many of these projects are already in the pipeline and we hope that they will be beneficial to our business.

**What do you wish to see – aside from the stimulus packages – from European politics?**
Our fear is that the strong investments being made this year and next will be reversed by 2011. An important area that should be invested in is PPP. Here, we must offer more incentives to private investors in relation to the construction industry and the wider economy. It is important to release more private capital for public projects and use tax money more efficiently. The federal government has set a goal to finance 15% of all public sector investment through these partnerships, at the moment the figure is around 4%.

**In your opinion, will the current market situation lead to significant mergers or other changes in the construction industry?**
Yes, not only in the construction industry but in all the industries in which we are active. The construction industry plays a certain role, but because of the expansion of our services business we are more interested in the consolidation of that market – where in the future we will play an active role and will be searching for more acquisition opportunities. We are confident that we will find appropriate companies to complement and enhance our portfolio.

## Marcelino Fernández Verdes, President and CEO of Dragados (ACS Group), Spain

**How is the current market environment affecting your business, both at home and abroad?**
To the extent that the global financial crisis is impacting investments, both private and public, there is a knock-on effect in the infrastructure market. The varying relative weights of private and public investment in the various countries means that our business is affected in a different way in each market.

**What are the key internal challenges you are facing as a result of market conditions?**
Over the past two years, the residential portfolio in our domestic market has been largely replaced by our civil engineering portfolio in various international markets – including the US, Canada, Poland, Portugal and Ireland – with considerable success.

**What opportunities are you currently exploring?**
We are gaining greater insight into the strategic foreign markets (North America, central Europe and others).

**Is government intervention in the market providing economic stimulus, or do you feel more could be done?**
Through its Ministry of Public Works, the government has been giving a major boost to infrastructure development, and significant backing to efforts to penetrate international markets.

**What regional markets and activities in Europe do you view as being key growth areas for your business?**
Apart from the US and Canada, our current focus is on central Europe – in particular Poland. We also continue to be active in Portugal, Ireland and Greece.

**What other growth/diversification opportunities do you see for Dragados in 2009/10?**
Our growth will go hand-in-hand with our geographical diversification, through involvement in the development of large infrastructure projects in Spain and other countries, either via direct contracts with public authorities or participation in concession projects (PPPs).

**António Mota, Chairman of Mota-Engil, Portugal**

**What is Mota-Engil, and what areas does your business focus on?**

With a 63-year history, including the merger of two major national construction companies in the last decade, Mota-Engil is now the leading company in Portugal's construction sector, with a growing stake in the international market including operations in 19 countries around the world.

The company started in the civil construction and public works sector, and today operates in three key business areas: engineering and construction; environment and services; and transport concessions.

Mota-Engil is also a major operator of national seaports; owner of the largest environmental company in the waste business subsector; and the second largest national operator in highway concessions despite its relatively recent entry to the sector.

We have several key national infrastructure projects coming up, including a partnership project we are leading for the future Lisbon Airport, and a high-speed rail system in partnership with VINCI – with which Mota-Engil has strong ties due to the joint shareholding of Lusoponte (the operator of Lisbon's bridges).

**What are your growth plans in the current climate?**

As Mota-Engil stands today, with revenues close to €2bn and having met our 2007 objectives ahead of schedule, the need arose to develop a new five year action plan dubbed 'Ambição 2013'. The plan rests on four central pillars: sustainable growth; diversification; global internationalisation; and human capital reinforcement.

The core goals that this strategic plan is designed to help us achieve are strengthening leadership in our national market; consolidating activities in the global arena; and developing additional business areas that will complement the current value chain, focusing primarily on infrastructure construction and operation.

On a global level, given that we operate in 19 countries worldwide, this strategy entails strengthening our position in those markets where we currently operate, diversifying our activities there and promoting synergies, thus replicating what we do in Portugal.

**What new territories are you focusing on in terms of expansion?**

Mota-Engil is focusing on Brazil as a new international market, where the spotlight is on environmental management and transport concessions.

We are also focusing on the three main geographies in which we currently operate: Africa, Latin America and central Europe – in which Angola and Poland are platforms for development into new markets.

**What international business areas are central to your strategy going forward?**

Regarding new business areas, our strategy is centred on mining (in which developments are taking place in Malawi), industry (currently operated through several companies in Portugal, as well as Angola), and lastly energy (where there are new opportunities on offer in the Angolan market).

Another important factor on which the development of our international strategy rests, is the promotion of partnerships in any market where we believe we can promote the growth of Mota-Engil. In this respect we would like to highlight our recent partnership with Angola's biggest economic group, Sonangol, in the founding of an Angolan company of which Mota-Engil is the main shareholder. This has resulted in the formation of Angola's largest construction company, the aim of which is to take a leading role in this market.

**What progress are you making in fulfilling your strategy?**
The achievement of a record backlog of €3bn; the increase of construction activity in foreign markets; and the growth of activities in areas other than construction, show that the company is now in a position to guarantee the fulfillment of its strategy – occupying a top position in the Iberian peninsula. It will also make us one of the top 40 construction companies in Europe by 2013.

Apart from the operational side of our strategy, we have also started taking measures to improve the qualifications of our employees, the most important of which is the creation of a corporate university (the Mota-Engil Active School). We have also developed management models that enable us to be more efficient.

I firmly believe that adherence to our defined strategy will, despite the adverse global economic conditions in which we find ourselves, result in us improving our position at a European level. We expect to reach the €4m revenue mark, as well as increasing efficiency at an operational and financial level within the company.

**David Mackey, CEO of P Elliott & Co, Ireland**

**Who are P Elliott & Co?**
Founded in 1942, P Elliott & Co is a third-generation family business that has grown into one of Ireland's top construction and property development companies. It operates right across the commercial, industrial, retail, leisure and public sectors. The success of the company is reflected in its national standing in 2008, being ranked ninth in the list of the top 100 building contractors, and number 87 among the top 1,000 Irish companies overall.

**How is the current market affecting your domestic business?**
Even against the backdrop of the almost unprecedented downturn in the Irish and global economies – with the Irish construction and property development markets among the hardest hit – P Elliott still delivered a very good set of results in 2008. While turnover fell by just 3% from €312m to €293m, we achieved a net profit before tax of €8m, and our net assets increased by just over 4% year-on-year to €62m.

The construction arm of our business has obviously been negatively impacted by the current downturn, but much less so than many other companies operating in our sector. At the same time, however, with a greatly reduced level of construction activity taking place in Ireland, we now have to operate in a much more competitive environment, with tender prices reducing significantly and consequent reductions in profit margins. Despite the very serious slowdown in the residential market, followed quickly by a downturn in the commercial market, our property development operations also performed very well in 2008.

The very serious slowdown in the Irish residential market inevitably puts particular pressure on cashflow, but we have been able to cushion ourselves against the worst affects of this by calling on the cash reserves that we were prudent enough to build up during the 'good' years.

In terms of our substantial portfolio of commercial investment properties, with the softening of yields, capital values have dropped significantly in Ireland (as in many other countries) with resultant negative impacts on loan-to-value ratios.

By its very nature the property market is cyclical, and following the current cycle we are confident that activity and values will improve once again. In the face of the very challenging market in which we currently operate, we continue to win major building contracts, such as that for the new acute hospital in Northern Ireland (which we won with our joint venture partner, FCC of Spain). In addition to being the building contractor in this case, we are also part of the consortium that has been selected for this major PPP project, together with FCC, Allied Irish Bank and Interserve Investments. Although the property development market will continue to be difficult in the short-term, because we have good quality developments in the right locations we continue to achieve some sizeable lettings to top quality tenants – particularly in Dublin.

## What are the key internal challenges you are facing as a result of market conditions?

The key internal challenge currently is the relentless pursuit of cost effectiveness across all of our operations in order to remain competitive – something that we have been very successful in achieving on a number of fronts.

Performance bonus payments have been totally eliminated; voluntary salary reductions of 15% and more have been achieved; and we continuously ensure that our supply chain costs from subcontractors, material suppliers and plant providers reflect the new environment in which we now operate. In addition, overheads have been reduced to unprecedented levels and, where necessary, we have implemented redundancies and layoffs. The real challenge, however, is to take all of these measures while at the same time retaining the many capable and loyal people who manage and work for our company, together with our core team of long-standing subcontractors.

On the property development side, our main challenge is to maintain the confidence and support of our funders. This is something we have been very successful in doing by adopting an open and transparent approach with all of the banks we do business with; satisfying them on an ongoing basis that we are still capable of generating sizeable levels of new business in our construction operations; progressively reducing our stock of residential properties; ensuring the continued strength of our portfolio of investment properties; and continuing to secure strong tenants in the case of our other development projects.

## What opportunities are you currently exploring?

While the Republic of Ireland market has been very good to P Elliott over the 67 years of its existence, the current global and national downturn has highlighted for us that, by international standards, it is a relatively small market. Our task going forward is to expand our horizons, not just into new countries but also into further new businesses that will have important synergies with our core construction and property development operations.

Therefore, going forward one of our key strategies is to become a much more diversified multinational player. During the past few years, we have successfully expanded our business into Northern Ireland and secured a number of major contracts. At the beginning of 2009, we also opened a new office in London and have already secured a number of building contracts there with very good clients. During the second half of 2009 and beyond, it is our intention to expand our construction operations much further afield, including to countries in North Africa. We have already assigned specific responsibility for the UK and North African markets to two of our most senior directors.

We are also seeking to grow our business by expanding into civil engineering contracts. We are doing so by partnering, through joint venture arrangements, with a number of companies that are very experienced in this field internationally, and with which we have already developed a strong business relationship. Over the years, joint venture projects have made a very important contribution to our profitability and trading performance in Ireland, and they are a vehicle that we feel very comfortable with – when we source the right partners.

**Is government intervention in the market providing economic stimulus, or do you feel more could be done?**
To date, the main government interventions in the market have taken the form of the bank guarantee scheme; the nationalisation of one Irish bank; and the recapitalisation of a number of others. There has been little or no visible evidence of these interventions providing any meaningful economic stimulus up until now.

However, against the background of the speed and severity of the global downturn that has occurred, we all have to accept that the road to economic recovery will be a gradual one over the next few years. The next major government intervention, which is imminent, will be the establishment of the National Asset Management Agency (NAMA), which is designed to breathe much needed liquidity into the banking sector in Ireland. Whether or not it will be successful remains to be seen.

Other key requirements for economic recovery in Ireland will be the restoration of order to public finances and greatly improved domestic competitiveness. Undoubtedly, progress has been made on both of these fronts during the current year, and further initiatives in relation to major cutbacks in government spending will improve Ireland's situation further.

There are encouraging signs emerging that the second quarter of 2009 may have marked the low point in the Irish economy, and that the rate of contraction is beginning to slow very considerably. Furthermore, recently published figures clearly show that Irish exports, particularly through the multinational sector, have performed much better than in most other developed countries.

As regards the question of the government doing more, the harsh reality for all of us is that it has very little scope to do so, at least in the short-term.

The government's first priority must be to restore order to public finances and get the banking system moving again, all of which is part and parcel of bringing about a much more balanced and healthier economy in the future. All sectors of the Irish economy will ultimately gain from this.

The limited areas where the government can do more include the adoption of a more pragmatic approach to capital spending and ensuring projects that will contribute to the whole economy go ahead as planned. Furthermore, with exports being of such critical importance to Ireland's small open economy, the government should finalise its promised state guarantee scheme for exporters, including some form of state-backed bonds. These would be key for Irish construction companies, who have the necessary track records and are prepared to go out and secure major contracts in certain high-risk, cash-rich countries such as Africa and the Middle East, where bonding requirements are often extremely onerous.