

## **Mota-Engil Africa:**

### **If not an IPO, what else?**

It was the middle of October, 2014. Gonçalo Moura Martins, CEO of Mota-Engil SGPS (ME), a preeminent Portuguese leader in public works and civil construction, was looking through his window, and was wondering why the IPO plans for Mota-Engil Africa (MEAFR), a subsidiary of the company, went so wrong. Those last months were a vivid demonstration of the Murphy's Law: anything that could go wrong, went. The IPO process started smoothly in the beginning of 2014: the African subsidiary was performing outstandingly, way better than its parent, investors were interested, and market conditions were favourable, with its ups and downs in 2013, but still way better than what it was in the crisis period of 2009 forwards. Even so, the environment soon commenced changing: oil prices started plunging, and the BES bank, one of the banks involved in the IPO, after showing major losses and accounts irregularities on the first six months of the year, went through serious financial difficulties, which eventually lead to a resolution. Since BES was a major Portuguese bank with significant systemic impact, these events affected dramatically investors' perceptions about the country, and lead to market insecurity and investment drawbacks.

Still, Mota-Engil Africa had to go public. In a general meeting held on the 27<sup>th</sup> December 2013, it was approved, amongst other things, that Mota-Engil Africa would become a public listed company, but also that some shareholders would receive, in proportion to their shareholding in ME, 20 million ordinary shares of MEAFR, representing 20% of the total issued capital of the subsidiary. This right was called a Special Dividend Right, and would expire at the end of 2014.

Conditions for a new IPO trial were terrible. However, there was still a light at the end of the tunnel: in the last of a series of meetings that Gonçalo Martins attended, one of the bankers proposed a "technical listing", which meant to become public, but without receiving any cash proceeds from it. Gonçalo was surprised with the suggestion. However, it could solve the Special Dividend problem. But going public, in these market conditions, and without earning any proceeds from it could seriously damage Mota-Engil Africa and the parent company's reputation if something went wrong for the second time.

## **Foundation**

### **Mota & Companhia**

On the 29<sup>th</sup> June, 1946, Manuel António da Mota founded Mota & Companhia, a Portuguese company whose objective was to offer integrated engineering and construction services. In the same month and year he created a branch office in Angola. The branch office dealt with exploration and wood transformation exclusively at first, but after 1948 it also started dealing with construction projects and public works, all in the African continent only.

The Mota & Companhia kept expanding its business in Africa until 1976, when it also started operating in Portugal. From that year onwards, the company maintained its investments in both territories – Africa and Portugal. The company kept expanding its portfolio throughout the years, and at that point in time it had already participated in the construction of airports, dams, and main roads. Furthermore, it also grew in size and reputation through the acquisitions of smaller companies related to the construction sector and public works.

In 1987, taking advantage of the inflated stock prices that preceded the October Crash, the company went public, selling 12% of its equity, and became listed in the Lisbon stock exchange.

In 1996, and following a strategic plan elaborated the year before, the company starts operating in Poland, Hungary and Czech Republic. All these countries offered high growth potential, had a lack of important infrastructures, their competitive environment was acceptable and, most importantly, some of them were benefited by structural funds from European Union, making them attractive new markets for a construction company.

Later, Mota & Companhia commenced to enlarge its focus outside Africa and Central Europe: after some smaller construction jobs done in Venezuela (in 1978), and in Peru (since 1996), Mota & Companhia started betting strongly on the latest market through the acquisition of a Peruvian company: Translei, which acted within land moving and mining sectors. This process counted with Engil's participation. Engil, which was founded in 1952, began its operations within real estate sector, but with the construction of the Portuguese Lindoso dam in 1987, the company started dealing with public works.

### **Mota-Engil: the Merger**

On the 23rd of July, 1999, Mota & Companhia made a takeover bid at Engil SGPS equity, which resulted, in 2000, in the creation of Mota-Engil Group. This merger allowed the constitution of the biggest Portuguese construction company until then. The chairman appointed was Mr. António Mota.

With the acquisition, a new and more efficient organizational structure was needed: after a series of mergers and divisions, the Mota-Engil SGPS network comprised four autonomous main business areas: Mota-Engil, Engineering and Construction, SA, (also known as MEEC); Mota-Engil Environment and Services (which dealt with Logistics, Waste, Water, and Energy & Maintenance); Mota-Engil, Transport Concessions; and MEITS – Mota-Engil, Real Estate and Tourism. A fifth business area was used as back office for administrative services and administration, called Mota-Engil Shared Administrative Services and Management, SA.

In 2005 the Group entered in the PSI 20<sup>1</sup>, being the only Group within the index that dealt with Engineering and Construction sectors. This allowed Mota-Engil to earn more visibility and brand recognition. **Exhibit 1** shows ME's historical prices, and **Exhibit 2** shows selected financial information of Mota-Engil.

### **Mota-Engil Africa**

The parent company (ME) kept managing its accounts based on its three main business sectors (Engineering and Construction, Environment and Services, and Transport Concessions), but came to realise that this was not the most efficient way possible after the company's constant geographical expansion throughout the years. In order to solve this problem, to facilitate obtaining financing in each different market, and to help supporting the growth in international activities, the Mota-Engil's board approved a new internal organizational model in January

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<sup>1</sup> The PSI-20 (an acronym of Portuguese Stock Index) is a benchmark stock market index of companies that trade on Euronext Lisbon.

2012, in which the structural organization's focus would shift from a business sector approach to a geographical one.

On the 31<sup>st</sup> October 2012, Mota-Engil Africa was created as a private limited liability company under the laws of Netherlands, and headquartered at Amsterdam. This company would act as a holding for the African segment, and would comprise all the companies that made business within Africa.

Often referred as Dutch tax haven, the Netherlands is a fiscally friendly country, where a corporation can take advantage of the low taxation. Furthermore, by being sediated in the Netherlands, the company could also take advantage of some administrative facilities<sup>2</sup>. These were the reasons why the company's corporate seat was chosen to be Amsterdam.

Consequently, after the restructuring, which was implemented in 2013, the Group officially divided its focus into three geographical areas: Europe, Africa, and Latin America. African operations would be controlled by the newly created Mota-Engil Africa, and the company itself was also divided into geographical areas: Angola, SADC<sup>3</sup>, West Africa and East Africa. **Exhibit 3** shows in a simplified way how ME was operating before the restructuring and **Exhibit 4** shows how ME and Mota-Engil Africa were organised after it.

### African Markets

In 2013, Africa was still showing the same signs of significant economic rise that has been showing on the last decade. GDP was growing at a pace of 4-5%<sup>4</sup>, the population spendable income was increasing and demographics were showing a young and growing population, moving steadily to increasing urban areas. This economic growth was mostly driven by exploration and development of the region's natural resources and the current high prices of commodities. Oil prices, for example, were showing favourable values, especially for oil exporting countries, such as Angola. Because of the abundance and rising global demand for raw materials, African governments started adopting policies and forging new partnerships to boost investment in new infrastructure in order to keep up with the evolution of Africa's economy and population, and these policies and partnerships would be used to develop the sectors of agriculture, industry, commerce, technology and tourism. PPPs<sup>5</sup>, for example, were one of the methodologies that were being used by governments who wanted to tackle these obstacles, and were adopted by Kenya, Cameroon and Mozambique<sup>6</sup>.

Mota-Engil Africa wanted to take advantage of the favourable environment and positive future prospects, in a country with an infrastructure deficit but with investment available. But the company still had to take into account the different specifications of all the four geographical areas where it operated in order to efficiently allocate its resources and make profitable business decisions. **Exhibit 5** shows the African markets where Mota-Engil entered since its creation and **Exhibit 6** shows the major competitors of Mota-Engil that also operate in Africa.

### Angola

A country with an abundance of natural resources, and an important destination for FDI in Africa. Its most important natural resource is oil, and its large reserves enabled it to have a

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<sup>2</sup> "The Netherlands: biggest tax haven for Fortune 500 companies", IamExpat article, July 2014

<sup>3</sup> Southern African Development Community

<sup>4</sup> Economic Report on Africa 2013

<sup>5</sup> Public-Private Partnership

<sup>6</sup> MEAFR prospect 2014

strong fiscal position until now. Oil is, by far, the only relevant export: oil accounts for nearly 98% of total export revenues<sup>7</sup>. Diamonds and gas provided further export receipts.

Angola was facing a favorable economic environment, with a GDP growing 5.1% in 2013, and that has grown eightfold since 2003, and young demographics increasing at 3.1% per year, that were enabling companies to hire cheap, but mainly unskilled, workers. However, the country was still lacking in major transport and logistics infrastructure. The Angolan government tried to tackle this issue with some reforms: one of them, the Fundo Soberano de Angola (FSDEA), created in 2012, was a fund whose purpose was to supply cash for essential infrastructure projects, and had about US \$ 5 billion by October 2012.

The country also faced some major issues, such as extreme inequality, an inadequate institutional framework, weak business environment, and lots of corruption. Angola was rated as the most difficult country in which to do business in the SADC region, having the lowest ranking in the Ease of Doing Business Index<sup>8</sup>. Furthermore, despite being stable since the 27-year war that ended in 2002, Angola still had some security problems: ground travel could be problematic because of forgotten land mines in some regions, and armed groups that specifically target and attack expatriates also presented a big risk.

Regarding the construction sector, the country had 44 major international contractors in 2011, and was dominated by Portuguese, Brazilian and Chinese companies. While some enterprises took advantage of cultural similarities, such as the Portuguese and Brazilian ones, who share the same language, others exchanged natural resources for infrastructure investment, business model used by the majority of Chinese companies.

## **SADC**

The primary markets in the MEAFR's SADC business segment are Malawi and Mozambique, while other smaller markets comprise South Africa, Zimbabwe and Zambia. Like Angola, these countries are rich in natural resources: Malawi's economy is reliant on agriculture (between 80% and 90% of the total workforce is engaged in the activity<sup>9</sup>). Tobacco plays a major role on the economic environment of Malawi: both agriculture and industry are mainly focused on tobacco, which drove growth of the country to approximately 4.1 per cent in 2013. Mozambique economy is specially based on offshore natural gas and coal reserves. Coal exports actually enabled Mozambique to show a 7.5% growth in 2012<sup>10</sup>. The country also exports ores and minerals, with more than half of the value of exports being aluminium.

These countries face similar issues as Angola: trade and investment policies are corroded by a number of factors, such as government interference in the economy, weak rule of law, arbitrary tax policies, and minimal enforcement of property. Corruption is also a big and present issue.

The expansion of the SADC region's mining and oil and gas sectors resulted in significant investment in infrastructure with the vast majority of projects targeting railways, ports and power stations. Mota-Engil Africa has many different competitors in this geographical area, such as Chinese companies, and new entrants, like Indian, South Korean, and Japanese firms. As strategy, these enterprises use low-cost credit lines in order to gain market share, or exchange infrastructure investment for access to minerals and other natural resources. Among the competitors, there are also Portuguese and Brazilian companies that, as stated before, share similar cultural or historical background.

## **East Africa**

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<sup>7</sup> Africa gearing up, PWC, 2013

<sup>8</sup> Africa gearing up, PWC, 2013

<sup>9</sup> African Economic Outlook 2013 - Structural Transformation and Natural Resources

<sup>10</sup> Economic Report on Africa 2013

In East Africa, MEAFR operates mainly in Uganda, Rwanda and Tanzania. Following the same rationale as above, these countries present big opportunities in natural resources, such as oil, natural gas and minerals, production mainly based on agriculture, young, uneducated and growing demographics, and also big issues related to corruption, infrastructure deficit and/or restrictive tax regime.

The lack of infrastructure, especially on the energy and transportation sectors, presented many opportunities for enterprises like Mota-Engil Africa. Chinese, Brazilian, Indian and Japanese companies also compete for these opportunities in the referred markets, whose main deficit is in energy generation, grid infrastructure and road network. Local companies focus primarily on residential buildings and roads, while the international enterprises focus on major infrastructure projects.

### **West Africa**

Cape Verde, Ghana and São Tomé and Príncipe comprise the main markets where MEAFR operates in West Africa. These countries are also rich in natural resources, have strong agricultural presence, and present deficits in the support infrastructure for oil and gas mining sectors and on rail and port infrastructure.

The competitive landscape is similar to other African countries, with the exception of the presence of French companies, which share cultural ties with the region. In addition, Italian, Spanish, Portuguese, Brazilian and Chinese companies compete in the area to see who can grab the opportunity to make business.

### **The IPO**

By the end of 2013, Mota-Engil Africa and its consolidated subsidiaries had achieved a prestigious place as an Engineering and Construction company. Still, some main investors of Mota-Engil believed that the subsidiary was undervalued, and its performance was being hidden by the slower growth rate of the parent company. So, on the 27<sup>th</sup> of December, it was decided on a general meeting that Mota-Engil Africa had to become public. This strategy would allow: i) To use the IPO process as a tool to give emphasis and visibility to one of the most valuable assets of the ME Company, value that was being supported by high oil and remaining commodities' prices; ii) To give investors interested in emerging markets an opportunity to invest in a new company related to them; and iii) to crystalize the value of the African segment, since stock behaviour of ME SGPS was hiding the potential of the subsidiary that was growing at a fast pace.

Despite these benefits, costs of an IPO also had to be taken into consideration: it was estimated that £20.3 million would have to be paid in order to cover for fees and other expenses, such as legal and accounting issues.

### **Mota-Engil Africa as an IPO candidate**

Mota-Engil businesses related to Africa were the most profitable ones. The year of 2013 showed that African operations accounted for 44% of the total turnover of the company, and 67% of the total EBITDA. **Exhibit 7** shows a schematic representation of this information. Inside Mota-Engil Africa, Angola and SADC, especially Mozambique and Malawi, generated the greatest portion of the company's revenue, at 50.4% and 47.3%, respectively. **Exhibit 8** shows MEAFR selected financial information for the years of 2012 and 2013.

However, being a prosperous enterprise is not enough to make it a successful IPO candidate; it is also the ability to communicate the company's value and attract the proper investors. Investors differ in risk aversion, industry preference, type of product, economic factors, amongst others. Mota-Engil Africa dealt with construction and engineering sectors, and made business in

African countries, which belong to the frontier markets category. For these reasons, Mota-Engil Africa's board decided to be listed in the London Stock Exchange. The main investors related to frontier markets, allied to the construction sector, were mainly located in London and USA, so the listing was decided to be in London, and the roadshow of Mota-Engil Africa went around the two referred places.

Furthermore, the performance of the company at the present time is important, but future prospects and expectations of growth also play a major role in acquiring potential investors. The company had to be able to communicate that it would grow in size and revenues in the future.

### **The role of Investment Banks**

These financial intermediaries perform a variety of services, such as securities underwriting, facilitating mergers and other corporate reorganizations, or acting as a broker and/or financial advisor for institutional clients. So, not only investment banks play a major role in an IPO process, and the more prestigious the bank, the bigger the amount of credit it will give to the process, but also should be the first step in the process; a company could sell shares on its own, but hiring a financial institution, although costly, facilitates the process a lot.

In the Mota-Engil case, there were many banks involved: Standard Bank, one of the biggest South-African financial service providers was acting as Sole Global Coordinator of the Institutional and Preferential Offering of the company, and also as Joint Bookrunner of the Institutional Offering, with Banco Espírito Santo Investment Bank. Other financial institutions included in the IPO process were Caixa Geral de Depósitos, Millenium, BPI, and Banco Finantia, important retail Portuguese banks, and Nau Securities. **Exhibit 9** shows an organigram of all the banks involved in the process.

The target investors of MEAFR were mainly located in London, USA and South Africa, but the most important thing was to select banks with experience and knowledge in frontier markets, especially ones from Africa. For these reasons the selected banks for the IPO process ended up to be the ones referred above. Furthermore, not only the BES Bank was at the time one of the biggest and most respected Portuguese banks, being the second largest financial institution in terms of net assets (80.7 million € at march 2011), and with an average market share of 20.3% in Portugal, but also the bank and Mota-Engil already shared an history: the company Ascendi, created in 2008 and which business was transportation concessions, was the product of a partnership between Mota-Engil and ES Concessões, which belonged to BES.

### **Market Conditions**

In an IPO timing is of utmost importance. Companies should try to time their IPO in order to take advantage of favorable market conditions. Remnants of the 2008 Global financial crisis and 2010 European Sovereign Crisis were still being felt, but without the initial intensity. At the beginning of 2014, the PSI20, the Portuguese Stock Index, and main index of Euronext Lisbon, was showing a positive trend which can be seen on **Exhibit 10**.

Furthermore, oil and other commodities' prices were showing favorable values. Mota-Engil Africa operated exclusively with African countries which depended mostly on natural resources, specially oil and natural gas. Also, "the primary raw materials used by the Group in its projects were cement, steel, stainless steel, stone and sand aggregate, bitumen, reinforcing bars, iron, copper, glass, aluminium and nickel"<sup>11</sup>, so it was important that these commodities were not only available, but also would be selling at an appropriate price. Commodity prices would have a substantial influence on the economic environment of African countries, which in turn would dictate Mota-Engil Africa's ability to make prosperous businesses. With the crisis of 2008, the

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<sup>11</sup> Mota-Engil Africa's prospectus

oil prices suffered a massive drop (from \$ 145.58 per barrel to only \$ 43.90 in only 8 months), but in 2011 they began to stabilize, and stayed around the \$ 100 per barrel value. **Exhibit 11** shows WTI crude oil price historical prices until 2014.

Regarding the number of IPO deals done in Europe, it could be seen that between 2012 and 2013 there was a decrease in the number of IPOs performed, whose volume went from 288 to 279 in 2013. However, the valuation of those deals increased: 2012 showed that IPO activity was worth € 11 billion, while in 2013 it increased to € 26.5 billion. **Exhibit 12** shows European IPO activity between 2007 and 2013.

### **The Special Dividend**

Because of the changes in the strategic focus of the company, which divided its operations into geographical areas, shareholders of ME SGPS became directly exposed to the African operations<sup>12</sup>. In order to provide these same shareholders with the benefits of such exposure, a general meeting held on the 27<sup>th</sup> December 2013 approved, amongst other things, a Special Dividend. This Special Dividend allowed registered holders of ordinary shares of ME SGPS on the 22<sup>nd</sup> January 2014 to be conditionally attributed, pro-rata<sup>13</sup> to their shareholding in ME SGPS, 20 million Ordinary Shares of Mota-Engil Africa, which represented 20% of the total issued capital. These investors gained the right to receive 0,10334084 Ordinary Shares for each share at ME SGPS. But this Special Dividend had a condition: if Mota-Engil Africa didn't become admitted to trading on a regulated market of a European Union member state by 31 December 2014, the right to the Special Dividend would expire.

### **The Global Offer**

Mota-Engil Africa, at the date of the elaboration of the prospectus, had a total of 100 million shares, with a par value value of 1€. For the IPO, it was decided that the company would offer up to 15 million newly issued shares (the Institutional Offer), and that the Selling Shareholders (the ones belonging to ME SGPS) would offer up to 20 million shares, the ones that they could get through the Special Dividend right (the Preferential Offer). This means that the total shares being offered to the public were 35 million, representing a free-float market capitalization of 30.4%, the same percentage that the Selling Shareholders would have as dilution after admission.

An over-allotment option was also stipulated by the underwriters of the deal: it was agreed that they had the option to offer up to 5.25 million shares, in addition to those already offered in the global offer.

The offering price range was set to be between £ 9.20 and £ 1160 (between € 11.70 and € 14.70). Setting the offer price at mid-point of the price range, and ignoring the overallotment option, would enable Mota-Egil to have a market capitalization of £ 1,196 million, and earn gross proceeds of £ 364 million. The estimated fees and expenses were estimated to be around £ 20.3 million, and would be paid by both the Company and Selling Shareholders.

Regarding net proceeds, Mota-Engil estimated that it would receive £ 137.8 million from the Global Offer, while the Selling Shareholders would earn around £ 260.5 million (through the sale of the full 20% amount from Mota-Engil Africa plus the over-allotment option), from which £ 205.9 million were related to the special dividend mechanism. The company wouldn't have access to the proceeds earned by the Selling Shareholders. **Exhibit 13** shows exchange rate information.

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<sup>12</sup> As shown in exhibit 2

<sup>13</sup> In proportion to

The proceeds would be used for, amongst other things, to expand Mota-Engil Africa's business in the African continent, expand and diversify its operations, fund capital expenditure in connection with large oil, gas and mining services projects for private multinational groups, and to fund working capital requirements for future projects, which are shown on **Exhibit 14**.

### **The events of 2014**

A combination of misfortunate events created a negative sentiment on the market, destroying the possibilities for Mota-Engil Africa to have a successful IPO process.

The first main event that sabotaged the enterprise's IPO was the downfall of one of the main banks of the process: the BES bank. The bank had been showing aggravating accounting issues, such as losses of 518 million euros in 2013<sup>14</sup>, since the beginning of the year. Furthermore, news that the Bank of Portugal was supervising BES' operations didn't help the market environment. The issue seemed to be in the non-financial area of BES group, which sold an extensive amount of commercial paper, but at the same time was facing liquidity issues.

Not long passes when it is discovered other companies involved in the process, and all linked by vast money amounts: in June it is discovered that PT, a major Portuguese telecommunications firm, had invested around 900 million in commercial paper from RioForte, company belonging to the Espirito Santo Group, increasing the plot around BES bank.

The collapse of the bank created an environment of skepticism in international investors, which started to avoid investing in companies related to Portugal.

Additionally, and although oil prices were facing a more less stable behaviour until 2014, there was a sudden and sharp decline that started around June of the same year. The reason behind the decline in oil prices is because of simple demand-supply economics: USA domestic production had doubled over the last 6 years, so Saudi Arabi and other oil exporting countries started competing with Asian Markets, which put pressure on the price. Furthermore, exploration investment had also been dropping and, on the demand side, weak economies and more energy-efficient vehicles made oil become devalued<sup>15</sup>. **Exhibit 15** shows the massive decline in oil prices that occurred during 2014.

One by one, the investors who promised to purchase shares of Mota-Engil Africa redraw their offers, until it there weren't enough investors to perform an IPO. So, in July, Mota-Engil officially suspends the IPO process. The reason given was deterioration of market conditions and the impact it had on market sentiment<sup>16</sup>.

### **The Technical Listing:**

Conditions for a new IPO weren't the most favourable ever. Almost four months had already passed since the first attempt, but market sentiment was still sceptical. The majority of investors that had shown some interest in the company during the roadshow no longer wanted to purchase shares.

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<sup>14</sup> "A cronologia dos casos que explicam a crise no Grupo Espírito Santo", Jornal de Negócios newspaper, July 2014

<sup>15</sup> "Oil Prices: What's Behind the Drop? Simple Economics", The New York Times

<sup>16</sup> Mota-Engil public release, 11 July 2014

Many costs in lawyers and investment bank services were already incurred, and giving up on a second IPO attempt would be wasting this investment. Also the company would destroy the Special Dividend right, so the promised compensation for ME shareholders would never occur.

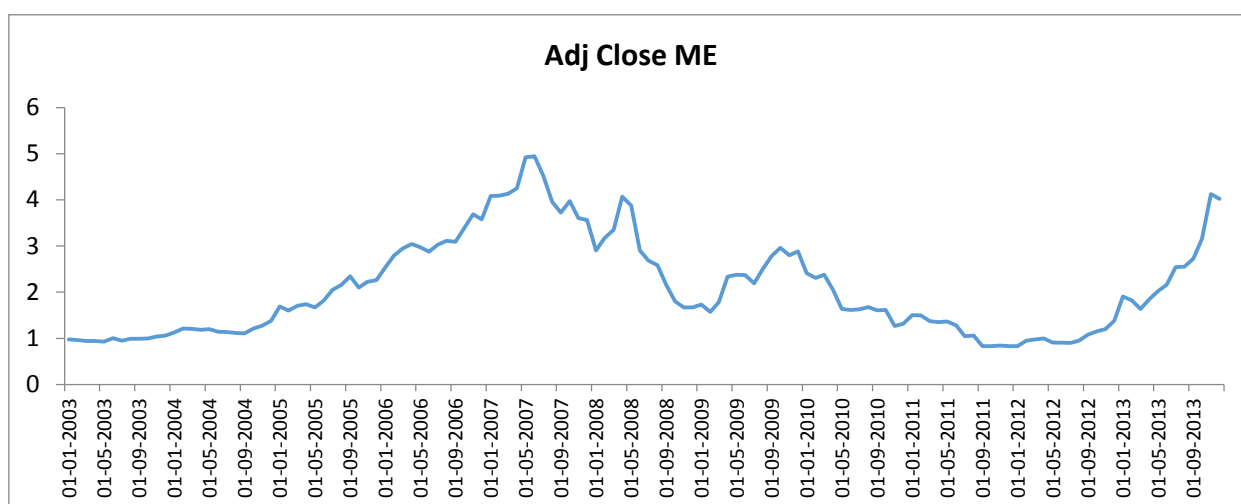
If the company went public again, the amount of shares being offered to the market would have to be lower since there was not enough demand for it. For this second attempt, it was proposed that only the Special Dividend shares would be listed, and when market conditions rise, new investors could also participate. So, on a first instance, 20 million shares would be on public hands if everything went well. Furthermore, the stock exchange also needed to change: the London stock exchange had a minimum of 25% as free-float while Mota-Engil Africa could only offer 20%.

The technical listing would allow Mota-Engil Africa to become public and provide liquidity to its shareholders, but the company wouldn't be able to obtain any cash proceeds from the process.

### **The decision**

As the end of the year approached, and market conditions weren't getting any better, Gonçalo Moura Martins needed to make a decision. Should he risk a new IPO attempt, despite economic environment? Should he opt for the more conservative approach and do a Technical Listing, enabling Mota-Engil Africa to become public, activate the Special Dividend but without receiving any cash benefits from the operation? Or should he just do nothing?

**Exhibit 1:** monthly historical prices of Mota-Engil, adjusted for dividends



Source: Yahoo Finance

**Exhibit 2:** Mota-Engil Accounts (in millions of USD except Per Share)

a) Balance Sheet

	2005	2006	2007	2008	2009	2010	2011	2012	2013
<i>Total Assets</i>									
Cash, Cash Equivalents & STI	79.81	87.53	257.91	250.41	183.74	268.16	303.55	358.67	422.19
Accounts & Notes Receiv	561.34	677.74	786.52	744.32	1156.12	1347.59	1193.89	1220.02	1349.23
Inventories	205.70	211.68	244.43	323.74	334.03	271.36	314.10	354.36	429.05
Other ST Assets	242.13	310.62	565.81	673.33	416.14	577.91	700.60	844.84	755.49
<b>Total Current Assets</b>	<b>1088.98</b>	<b>1287.58</b>	<b>1854.67</b>	<b>1991.80</b>	<b>2090.04</b>	<b>2465.02</b>	<b>2512.14</b>	<b>2777.88</b>	<b>2955.96</b>
Property, Plant & Equip, Net	459.08	484.42	2237.56	664.54	827.61	760.60	731.67	809.55	952.27
+ Property, Plant & Equip	977.51	1008.91	2813.31	1261.08	1585.82	1530.20	1527.97	1700.80	1990.08
- Accumulated Depreciation	518.43	524.49	575.75	596.53	758.21	769.59	796.31	891.26	1037.81
LT Investments & Receivables	149.28	176.35	175.29	174.61	143.78	253.92	291.50	369.06	438.70
Other LT Assets	249.53	339.94	670.75	2345.12	1100.14	1139.97	1032.18	792.78	856.25
<b>Total Noncurrent Assets</b>	<b>857.90</b>	<b>1000.70</b>	<b>3083.61</b>	<b>3184.28</b>	<b>2071.53</b>	<b>2154.49</b>	<b>2055.35</b>	<b>1971.38</b>	<b>2247.22</b>
<b>Total Assets</b>	<b>1946.88</b>	<b>2288.28</b>	<b>4938.28</b>	<b>5176.08</b>	<b>4161.58</b>	<b>4619.51</b>	<b>4567.49</b>	<b>4749.27</b>	<b>5203.18</b>
<i>Liabilities &amp; Shareholders' Equity</i>									
Payables & Accruals	377.34	427.14	475.83	598.22	1154.12	1233.92	1268.75	1371.51	1395.30
ST Debt	153.91	179.14	419.54	615.81	791.71	692.85	734.87	833.65	805.06
Other ST Liabilities	354.43	477.56	702.52	786.77	393.37	647.44	660.10	764.48	761.15
<b>Total Current Liabilities</b>	<b>885.68</b>	<b>1083.85</b>	<b>1597.89</b>	<b>2000.80</b>	<b>2339.20</b>	<b>2574.21</b>	<b>2663.72</b>	<b>2969.64</b>	<b>2961.51</b>
LT Debt	538.77	649.71	2373.94	2218.67	802.77	931.62	870.85	647.36	1030.73
Other LT Liabilities	145.96	154.05	402.19	480.37	456.67	471.13	495.30	556.90	439.82
<b>Total Noncurrent Liabilities</b>	<b>684.72</b>	<b>803.76</b>	<b>2776.13</b>	<b>2699.04</b>	<b>1259.44</b>	<b>1402.75</b>	<b>1366.15</b>	<b>1204.27</b>	<b>1470.55</b>

<b>Total Liabilities</b>	<b>1570.41</b>	<b>1887.61</b>	<b>4374.02</b>	<b>4699.84</b>	<b>3598.64</b>	<b>3976.97</b>	<b>4029.88</b>	<b>4173.90</b>	<b>4432.06</b>
Preferred Equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share Capital & APIC	242.15	269.89	298.42	285.53	293.26	273.52	265.21	270.06	282.17
(-) Treasury Stock	13.14	14.65	24.32	30.28	--	--	--	--	--
Retained Earnings	35.98	42.48	142.24	42.65	104.06	49.39	43.33	53.77	69.64
Other Equity	58.63	75.46	80.28	105.37	93.67	227.38	97.10	103.91	141.14
<b>Equity Before Minority Interest</b>	<b>323.61</b>	<b>373.18</b>	<b>496.62</b>	<b>403.27</b>	<b>490.99</b>	<b>550.29</b>	<b>405.64</b>	<b>427.74</b>	<b>492.95</b>
Minority Interest	52.86	27.50	67.64	72.97	71.94	92.26	131.98	147.62	278.17
<b>Total Equity</b>	<b>376.47</b>	<b>400.67</b>	<b>564.25</b>	<b>476.24</b>	<b>562.94</b>	<b>642.54</b>	<b>537.61</b>	<b>575.36</b>	<b>771.12</b>
<b>Total Liabilities &amp; Equity</b>	<b>1946.88</b>	<b>2288.28</b>	<b>4938.28</b>	<b>5176.08</b>	<b>4161.58</b>	<b>4619.51</b>	<b>4567.49</b>	<b>4749.27</b>	<b>5203.18</b>

Source: Bloomberg

b) Mota-Engil's Income Statement (in millions of USD except Per Share)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Revenue</b>	<b>2748.70</b>	<b>2759.22</b>	<b>2659.26</b>	<b>3029.98</b>	<b>2884.43</b>	<b>3073.32</b>
Cost of Goods & Services	--	1738.46	1559.69	1635.05	1474.00	1412.99
<b>Gross Profit</b>	<b>--</b>	<b>1020.75</b>	<b>1099.57</b>	<b>1394.93</b>	<b>1410.44</b>	<b>1660.34</b>
+ Other Operating Income	170.27	223.87	161.53	131.04	106.72	82.32
- Operating Expenses	2635.46	1089.29	1081.50	1280.17	1281.90	1418.38
<b>Operating Income (Loss)</b>	<b>283.50</b>	<b>155.34</b>	<b>179.60</b>	<b>245.79</b>	<b>235.26</b>	<b>324.28</b>
- Non-Operating (Income) Loss	--	69.71	53.85	81.76	81.40	148.53
<b>Pretax Income (Loss), Adjusted</b>	<b>103.36</b>	<b>85.63</b>	<b>125.74</b>	<b>164.03</b>	<b>153.86</b>	<b>175.75</b>
- Abnormal Losses (Gains)	--	-62.30	8.57	38.30	11.07	-3.82
<b>Pretax Income (Loss), GAAP</b>	<b>103.36</b>	<b>147.93</b>	<b>117.17</b>	<b>125.73</b>	<b>142.79</b>	<b>179.57</b>
- Income Tax Expense (Benefit)	44.86	32.81	25.16	26.76	47.62	62.05
<b>Income (Loss) from Cont Ops</b>	<b>58.50</b>	<b>115.12</b>	<b>92.01</b>	<b>98.97</b>	<b>95.16</b>	<b>117.52</b>
- Minority Interest	13.54	13.87	42.99	52.42	42.77	50.43
<b>Net Income, GAAP</b>	<b>44.96</b>	<b>101.25</b>	<b>49.02</b>	<b>46.55</b>	<b>52.39</b>	<b>67.09</b>
Accounting Standard	IAS/IFRS	IAS/IFRS	IAS/IFRS	IAS/IFRS	IAS/IFRS	IAS/IFRS
EBITDA	435.84	263.23	294.19	372.77	352.72	460.73
EBITDA Margin (T12M)	15.86	9.54	11.06	12.30	12.23	14.99
EBITA	362.49	169.60	195.47	262.92	245.75	334.84
EBIT	283.50	155.34	179.60	245.79	235.26	324.28
Gross Margin	--	36.99	41.35	46.04	48.90	54.02
Operating Margin	10.31	5.63	6.75	8.11	8.16	10.55
Profit Margin	1.64	2.01	2.08	2.43	2.13	2.11
Dividends per Share	0.16	--	--	0.15	0.14	0.15

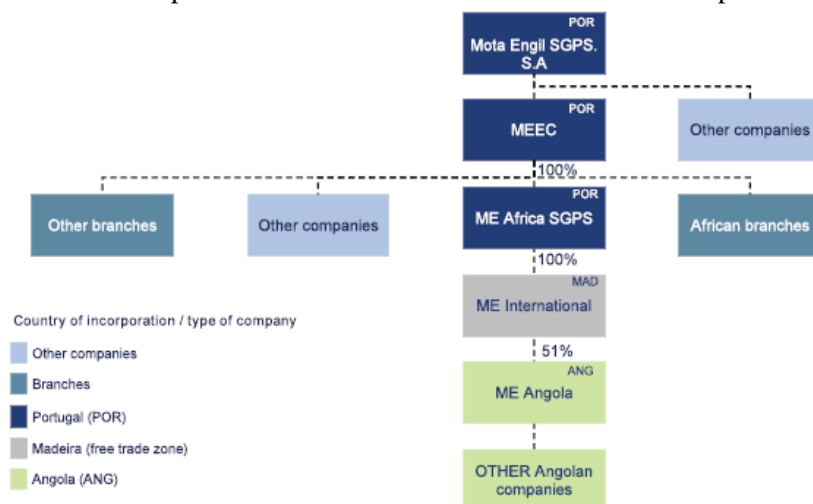
Source: Bloomberg

c) Mota-Engil's Cash Flow Statement (in millions of USD except Per Share)

<i>Cash from Operating Activities</i>	2006	2007	2008	2009	2010	2011	2012	2013
Net Income	40.46	133.71	44.96	101.25	49.02	46.55	52.39	67.09
Depreciation & Amortization	65.39	124.70	152.34	107.89	114.59	126.98	117.46	136.45
Non-Cash Items	124.14	5.98	115.83	10.23	123.40	185.27	237.13	-49.03
<b>Cash from Operating Activities</b>	<b>229.99</b>	<b>264.39</b>	<b>313.13</b>	<b>219.37</b>	<b>287.02</b>	<b>358.80</b>	<b>406.99</b>	<b>154.51</b>
<i>Cash from Investing Activities</i>								
Change in Fixed & Intang	-115.66	-216.46	-322.51	-432.80	-170.78	-186.91	-172.74	-222.11
Net Change in LT Investment	-74.73	-25.31	-77.18	-6.87	-41.68	5.93	-32.96	146.63
Other Investing Activities	-0.07	-4.50	-3.43	23.79	25.01	22.84	30.62	39.21
<b>Cash from Investing Activities</b>	<b>-190.45</b>	<b>-246.28</b>	<b>-403.12</b>	<b>-415.88</b>	<b>-187.45</b>	<b>-158.14</b>	<b>-175.09</b>	<b>-36.27</b>
<i>Cash from Financing Activities</i>								
Dividends Paid	-24.69	-30.86	-31.53	-29.71	-28.26	-29.66	-27.37	-28.28
Cash From (Repayment) Debt	36.73	88.26	134.90	319.94	100.69	-22.80	-31.32	201.22
Cash (Repurchase) of Equity	--	-7.64	-7.38	0.00	0.00	-0.17	0.00	0.00
Other Financing Activities	--	--	--	-47.03	-80.44	-109.50	-111.19	-148.29
Net Cash From Disc Ops	--	--	--	0.00	0.00	0.00	0.00	0.00
<b>Cash from Financing Activities</b>	<b>12.04</b>	<b>49.77</b>	<b>95.99</b>	<b>243.21</b>	<b>-8.01</b>	<b>-162.13</b>	<b>-169.88</b>	<b>24.66</b>
Effect of Foreign Exchange Rates	--	--	--	1.48	4.51	8.24	1.37	-26.06
<b>Net Changes in Cash</b>	<b>52.81</b>	<b>69.57</b>	<b>5.99</b>	<b>48.18</b>	<b>96.06</b>	<b>46.78</b>	<b>63.39</b>	<b>116.83</b>
Cash Paid for Taxes	17.68	27.98	30.30	33.17	32.89	27.45	47.69	52.26
Cash Paid for Interest	46.20	132.78	193.06	--	--	--	--	--
Free Cash Flow	108.34	42.06	-19.81	218.03	283.99	224.61	231.89	-53.75
Free Cash Flow to Firm	138.28	172.67	88.04	275.82	346.83	313.84	306.12	36.88
Free Cash Flow to Equity	151.07	136.18	125.51	544.93	406.02	213.11	210.89	158.64
Free Cash Flow per Basic Share	0.55	0.21	-0.10	1.07	1.39	1.10	1.13	-0.26
Price to Free Cash Flow	11.72	32.75	--	5.15	1.67	1.31	1.78	--
Cash Flow to Net Income	5.68	1.98	6.96	2.17	5.86	7.71	7.77	2.30

Source: Bloomberg

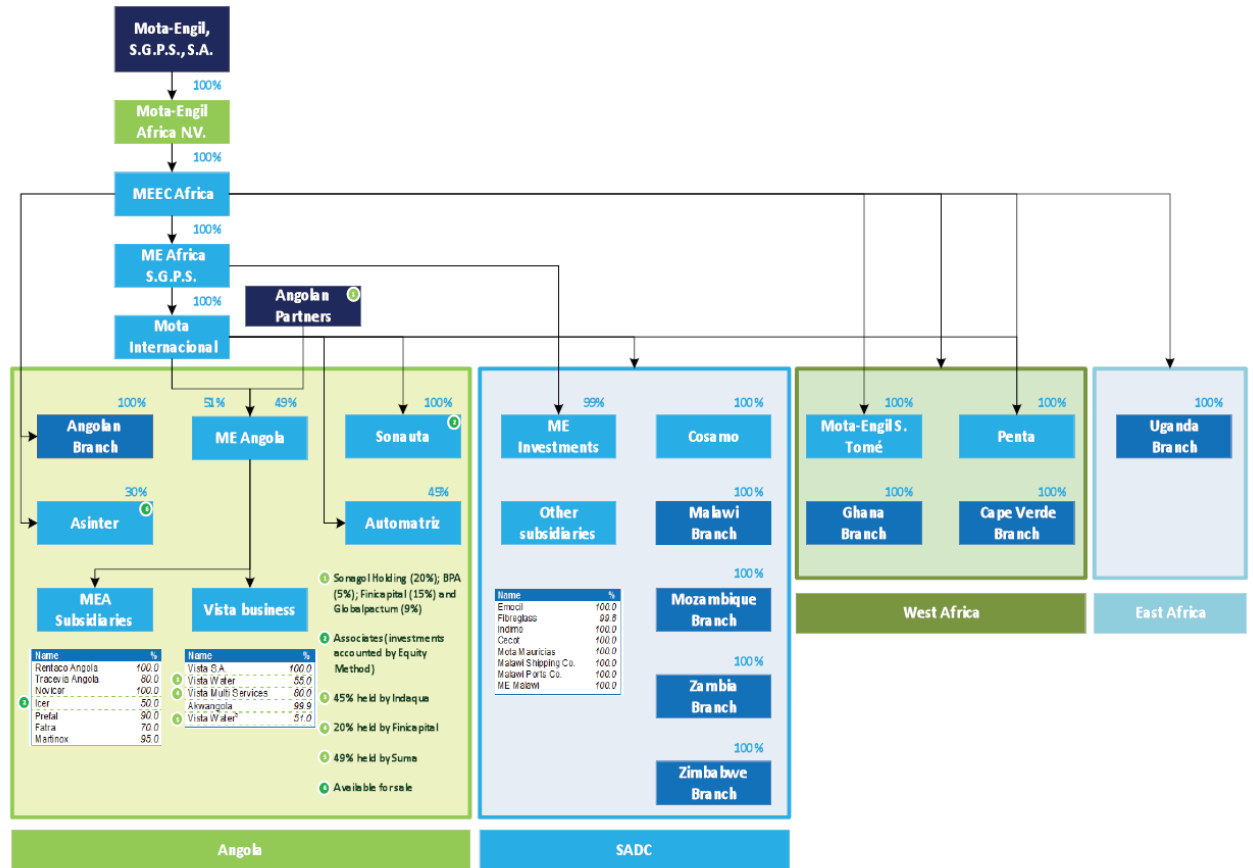
**Exhibit 3:** Simplified overview of the Africa business before pre-IPO reorganization



MEEC: Mota-Engil Engenharia e Construção

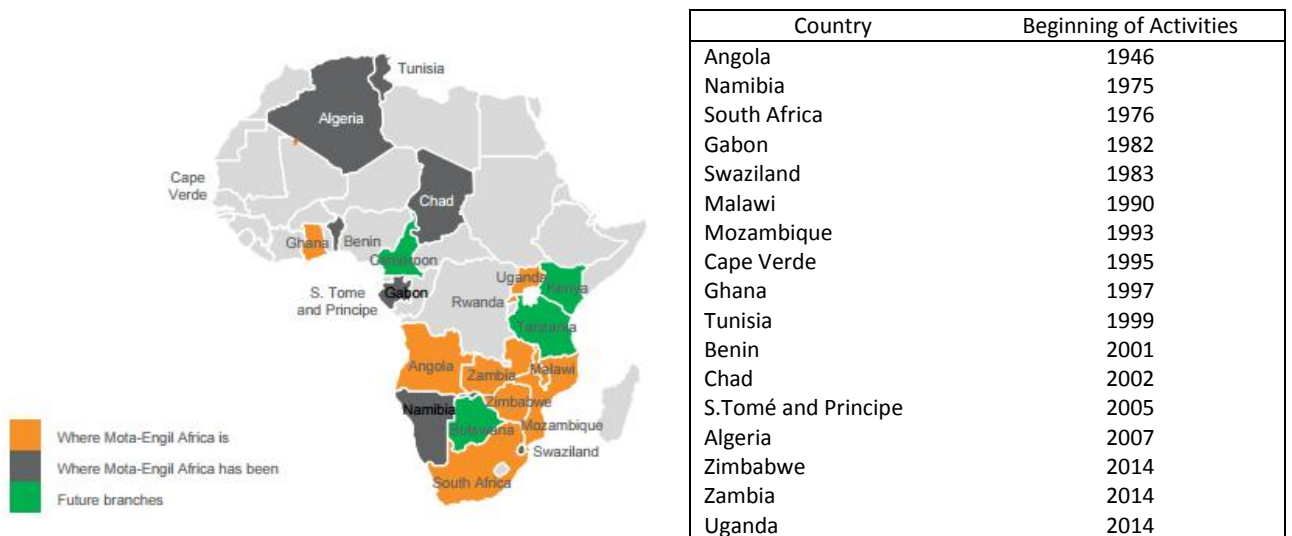
Source: Mota-Engil's prospect

**Exhibit 4:** Structural organization after reorganization (MEAFR is now from Netherlands)



Source: Mota-Engil's prospect

**Exhibit 5:** African countries where ME SGPS was operating (until 2014):

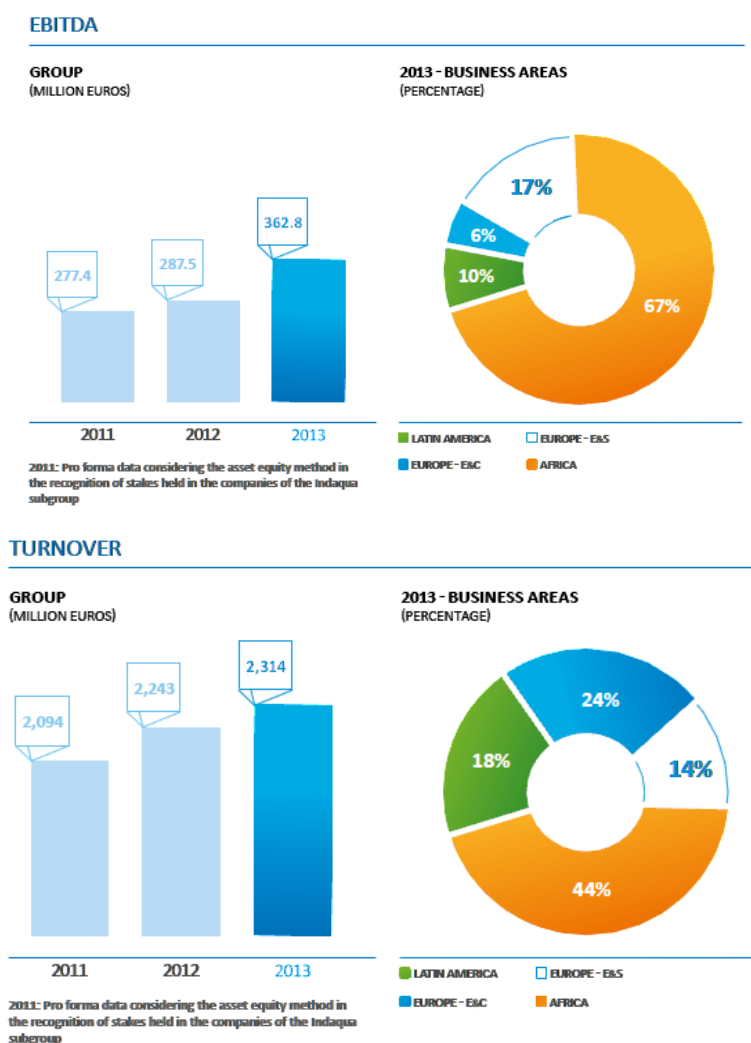


## Exhibit 6: Competitor's analysis: Construction companies that make business in Africa

Name	Mkt Cap (EUR)	EV	EV/TTM EBITDA	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	P/FCF	Dividend Yield
<b>MOTA ENGIL SGPS SA</b>	<b>388,807,821</b>	<b>1,897,660,821</b>	<b>5.3</b>	<b>5.13</b>	<b>4.3</b>	<b>14.96</b>	<b>9.41</b>	<b>5.56</b>	<b>8.68</b>	<b>6.32</b>
SALINI IMPREGILO SPA	1,950,408,636	2,754,175,636	5.78	5.58	4.42	18.2	15.07	9.88	22.56	1.02
OBRASCON HUARTE LAIN S.A.	1,665,282,655	9,405,182,655	14.2	8.95	8.34	26.31	7.02	6.16	N.A.	3.76
BOSKALIS WESTMINSTER	4,751,215,485	5,277,115,485	5.97	6.56	8	8.54	10.31	13.17	8.54	4.23
<b>TEIXEIRA DUARTE SA*</b>	<b>163,800,000</b>	<b>1,604,682,000</b>	<b>7.28</b>	<b>7.87</b>	<b>6.74</b>	<b>3.9</b>	<b>4.33</b>	<b>0.19</b>	<b>2.59</b>	<b>3.46</b>
<b>BOUYGUES SA*</b>	<b>12,066,679,654</b>	<b>18,384,679,654</b>	<b>8.98</b>	<b>7.7</b>	<b>7.13</b>	<b>30.48</b>	<b>30.93</b>	<b>22.37</b>	<b>25.57</b>	<b>4.49</b>
STRABAG SE-BR	2,707,499,929	2,935,404,929	4.32	3.87	3.71	14.22	14.43	12.55	5.18	2.11
SACYR SA	1,045,210,602	6,034,914,602	16.98	17.52	16.47	70.49	9.62	7.35	46.39	2.48
PEAB AB	2,042,058,417	2,647,252,817	9.29	10.49	9.06	17.17	13.98	12.46	N.A.	3.51
<b>VINCI SA*</b>	<b>35,149,087,391</b>	<b>49,400,087,391</b>	<b>8.72</b>	<b>8.66</b>	<b>8.33</b>	<b>16.37</b>	<b>16.61</b>	<b>15.15</b>	<b>11.35</b>	<b>3.05</b>
KIER GROUP PLC	1,726,069,015	1,984,050,245	14.96	8.05	7.27	33.29	12.39	10.75	11.78	4.25
SKANSKA AB-B SHS	7,561,935,891	7,630,852,883	12.6	8.94	8.36	19.9	14.78	13.82	N.A.	4.02
HOCHTIEF AG	5,881,737,188	6,804,160,188	16.76	5.93	5.76	N.A.	22.71	18.99	7	2.24

\*Referred on the prospect

## Exhibit 7: Mota-Engil's Ebitda and Turnover per geographic area



Source: Mota-Engil's company presentation 2014

**Exhibit 8:** Mota-Engil Africa financial information

a) Balance sheet (in millions of USD except Per Share)

<i>Assets:</i>	<b>2012</b>	<b>2013</b>
Cash & Near Cash Items	231.94	281.61
Accounts & Notes Receivable	688.95	972.77
Inventories	70.34	110.67
Other Current Assets	477.38	423.65
<b>Total Current Assets</b>	<b>1468.61</b>	<b>1788.70</b>
LT Investments & LT Receivables	60.97	60.44
Net Fixed Assets	255.78	361.08
Other Long-Term Assets	56.96	54.46
<b>Total Long-Term Assets</b>	<b>373.71</b>	<b>475.97</b>
<b>Total Assets</b>	<b>1842.32</b>	<b>2264.67</b>
in Angola	1271.09	1339.49
in SADC	440.18	773.82
Adjustments&Intercompany	90.42	101.28
in Western Africa	40.63	48.50
in Eastern Africa	0.00	1.57
<i>Liabilities &amp; Shareholders' Equity</i>		
Accounts Payable	247.78	203.61
Short-Term Borrowings	222.74	308.73
Other Short-Term Liabilities	777.96	999.84
<b>Total Current Liabilities</b>	<b>1248.48</b>	<b>1512.18</b>
Long-Term Borrowings	83.37	179.10
Other Long-Term Liabilities	129.17	82.62
<b>Total Long-Term Liabilities</b>	<b>212.54</b>	<b>261.72</b>
<b>Total Liabilities</b>	<b>1461.03</b>	<b>1773.90</b>
in Angola	928.56	1045.93
in SADC	345.97	563.04
Adjustments&Intercompany	145.76	113.02
in Western Africa	40.73	50.11
in Eastern Africa	0.00	1.80
Total Preferred Equity	0.00	0.00
Minority Interest	116.38	122.28
Share Capital & APIC	--	--
Retained Earnings & Other Equity	264.92	368.49
<b>Total Equity</b>	<b>381.30</b>	<b>490.77</b>
<b>Total Liabilities &amp; Equity</b>	<b>1842.32</b>	<b>2264.67</b>

Source: Bloomberg

b) Income Statement (in millions of USD except Per Share)

	<b>2012</b>	<b>2013</b>
<b>Revenue</b>	<b>934.95</b>	<b>1335.13</b>
<i>per Geographic Segment:</i>		
SADC	934.95	1335.13
Angola	321.61	631.91
Western Africa	602.20	673.10
Adjustments&Intercompany	13.19	19.49
Eastern Africa	-2.05	10.63
Cost of sales	0.00	0.00
<b>Gross Profit</b>	<b>506.53</b>	<b>791.87</b>
Other Operating Income	54.88	25.67
Operating Expenses	407.79	560.48
<b>Operating Income</b>	<b>153.62</b>	<b>257.06</b>
<i>per Geographic Segment:</i>		
SADC	149.49	254.71
Angola	51.09	151.49
Western Africa	98.67	93.61
Eastern Africa	-0.66	-2.07
Adjustments&Intercompany	0.00	-0.21
Interest charges	0.38	11.89
Foreign Exchange Losses (Gains)	38.68	56.90
Net Non-Operating Losses (Gains)	-2.60	-1.47
<b>Pretax Income</b>	<b>116.91</b>	<b>179.24</b>
Income Tax Expense	15.80	39.85
<i>per Geographic Segment:</i>		
SADC	13.74	37.91
Angola	1.01	0.60
Adjustments&Intercompany	0.92	1.31
Western Africa	0.13	0.04
Eastern Africa	0.00	0.00
Income Before XO Items	101.10	139.38
Extraordinary Loss Net of Tax	--	--
Minority Interests	39.59	38.23
<b>Net Income</b>	<b>61.52</b>	<b>101.16</b>
<i>per Geographic Segment:</i>		
SADC	35.89	107.83
Angola	48.03	31.45
Western Africa	-1.01	-2.44
Eastern Africa	0.00	-0.21
Adjustments&Intercompany	-21.39	-35.47
Total Cash Preferred Dividends	0.00	0.00
<b>Net Inc Avail to Common Shareholders</b>	<b>61.52</b>	<b>101.16</b>

Source: Bloomberg

c) Cash Statement (in millions of USD except Per Share)

<i>Cash From Operating Activities:</i>	<b>2012</b>	<b>2013</b>
<b>Net Income</b>	<b>61.52</b>	<b>101.16</b>
Depreciation & Amortization	49.55	65.47
<i>per Geographic Segment:</i>	49.55	65.47
Angola	26.27	29.45
Adjustments&Intercompany	20.73	27.23
SADC	2.22	8.43
Western Africa	0.34	0.37
Eastern Africa	0.00	0.00
Other Non-Cash Adjustments	-36.34	-167.94
<b>Cash From Operations</b>	<b>74.72</b>	<b>-1.32</b>
<i>Cash From Investing Activities:</i>		
Disposal of Fixed Assets	1.62	2.12
Capital Expenditures	-92.45	-128.74
Increase in Investments	0.00	0.00
Decrease in Investments	21.87	73.29
Other Investing Activities	-3.61	-0.33
<b>Cash From Investing Activities</b>	<b>-72.57</b>	<b>-53.66</b>
<i>Cash from Financing Activities:</i>		
Dividends Paid	-63.36	-48.84
Increase in Long-Term Borrowings	263.08	256.99
Decrease In Long-Term Borrowings	-207.65	-97.66
Increase in Capital Stocks	0.00	0.00
Decrease in Capital Stocks	0.00	0.00
Other Financing Activities	0.64	-12.57
<b>Cash from Financing Activities</b>	<b>-7.30</b>	<b>97.93</b>
<b>Net Changes in Cash</b>	<b>-5.15</b>	<b>42.95</b>

Source: Bloomberg

**Exhibit 9:** Banks involved in the IPO process



Source: Mota-Engil's Prospect

**Exhibit 10:** PSI 20 behaviour 2010-mid 2014



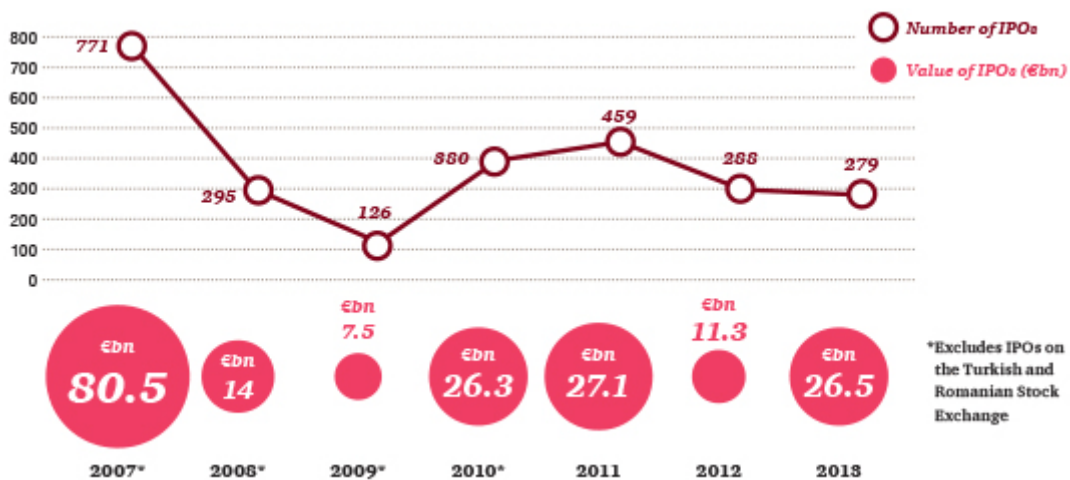
Source: Google Finance product, "PSI20" representation

**Exhibit 11:** WTI crude oil historical prices: from December 2005 to January 2014



Source: Macrotrends

**Exhibit 12:** European IPO activity by value and volume



Source: IPO watch overview 2013, PWC

**Exhibit 13:** Exchange rate information

Year	US\$ per €1.00			
	High	Low	Period Average	Period End
2011	1.49	1.29	1.39	1.29
2012	1.35	1.21	1.28	1.32
2013	1.38	1.28	1.33	1.38

Year	GBP per €1.00			
	High	Low	Period Average	Period End
2011	0.91	0.83	0.87	0.84
2012	0.85	0.78	0.81	0.82
2013	0.88	0.81	0.85	0.83

Source: Mota-Engil's prospect

#### Exhibit 14: Future primary projects

Country	Project	Contract Value <sup>(1)</sup> (€ millions)	Completion Percentage <sup>(2)</sup>	Backlog <sup>(3)</sup> (€ millions)	Completion Year <sup>(4)</sup>
Malawi	Nacala Corridor Railway Project	698.2	54	241.9	2014
Zimbabwe	Hwange Colliery Mining Contract	188.5	-	188.5	2018
Mozambique	Rehabilitation of the Sena Corridor	162.7	19	131.0	2016
Zambia	Rehabilitation of the Great East Road	118.6	8	108.9	2015
Angola	Calueque Dam	171.0	46	92.9	2015
Mozambique	Rehabilitation of the Chimoio-Espungabera Road	155.0	55	70.0	2014
Ghana	Maritime Protection	70.0	-	70.0	TBD <sup>(5)</sup>
Uganda	Capacity improvement of Kampala Northern Bypass	67.4	-	67.4	2016
Angola	Estrada Nacional-Xaua Catata Road	123.5	46	67.2	2014
Malawi	Lirangwe-Chingale-Machinga Road	62.8	-	62.8	2018
Mozambique	Rehabilitation of the Cuamba-Lichinga Railway	62.2	2	60.7	2016
Angola	Special Economic 2nd Zone	39.9	3	38.5	2016
Angola	Financial City	148.3	84	23.8	2014

(1) Represents the Group's share of the contract total value.

(2) Represents the percentage of the work executed during the contract term, calculated by applying the cost-to-cost method pursuant to IAS 11.

(3) Represents part of the Group's share of the contract value that remains to be executed.

(4) Reflects the delivery date as set forth under the relevant contract, taking into consideration any amendment agreed upon with the relevant customer.

(5) Dependent on Ghanaian Government financing.

Source: Mota-Engil's prospect

#### Exhibit 15: Decline in oil prices, from January 2014, to December 2014



Source: Macrotrends

## Teaching Notes

### Sinopsis

This case describes the dilemma faced by Gongalo Moura Martins, CEO of Mota-Engil, when someone proposed to him the idea of doing a Technical Listing instead of an IPO regarding a subsidiary, Mota-Engil Africa, in October 2014.

Market conditions were feeble because of the European Debt Crisis in 2010, but still were showing some signs that a successful IPO could be achieved if the company gathered enough targeted investors' attention. In fact, Mota-Engil Africa was doing well for a company that only officially existed for two years. However, the financial problems of one of the main banks that were participating in the IPO, and drop in oil prices damaged the hypotheses of an IPO.

Although Mota-Engil Africa was only founded in 2012, its parent company existed since 1947. Mota-Engil acted as a provider of integrated engineering and public works services. It started operating in Angola, expanded to other African countries, reached central Europe and Latin America. Mota-Engil Africa was created in order to comprise all the African operations that the civil engineering company had. The portfolio of the Group included airports, dams and major highways and main roads.

### Target

This case may be used in graduate **advanced** and **applied corporate finance courses**. In such a course it is interesting to explore the difficulties of the IPO process for a firm, the changing capital market sentiment for IPO's (the openings and closings of the IPO window), and analyse the concept of Technical Listing, which is a strategy where a firm goes public, but without receiving any cash prospects from it.

### Suggested Questions and Classroom Discussion

With this case each instructor may choose which questions would best fit its intended teaching goals. Below you may find several questions that may interest corporate finance, entrepreneurial finance (or both) students:

#### 1. *What are the reasons behind the IPO process?*

One of the main reasons why companies decide to go through an IPO process is to raise cash: an IPO is a way for a company to receive financing outside of the banking system, which reduces bank dependency. These cash proceeds can have many purposes, such as debt reduction, or a source of investment to new projects, which was the main objective of Mota-Engil Africa. Moreover, the company can raise additional funds through the issuance of more stock if it remains public. Furthermore, and taking into account the capital structure of the company, although normal for a construction and public works company, it shows that is risky for the company to raise more debt, since D/A ratios were 79.30% and 78.33%, in 2012 and 2013 respectively.

By being public, the company would be listed in a stock exchange, which gives it market exposure and brand recognition. By being known, the stocks from a company become more liquid, and not only can be used in financial transactions, but also can be offered to potential employees. Visibility is essential for companies that want to be seen as global by investors. Furthermore, being listed usually facilitates obtaining loans from financial institutions because the company's credibility increases.

An IPO also enables the spreading of risk among a larger group of shareholders. When a company increases in size, original shareholders tend to find ways to decrease their exposure to risk, but without compromising their share of the company's profits.

And finally, the IPO was a trigger of the special dividend right, which was created to compensate Mota-Engil's shareholders for their new exposure to the African operations.

2. *What were Mota-Engil's main difficulties when marketing the subsidiary to investors?*

When targeting investors that might be interested in Mota-Engil Africa, the board had to be careful about many considerations: first of all, it was a global civil construction and public works company. Investors will be attentive to the company reputation, to the places where it operates, to the dependency of certain commodities, presence of specialised work force and ability to obtain contracts. Secondly, the company was focused in Africa, countries rich in natural resources, but with major political, economic and social problems.

Finally, they had to make investors believe that, although the company was so short-termed, it wouldn't influence its ability to earn projects, despite the large number of competitors.

3. *Was the capital structure of Mota-Engil Africa favorable for an IPO process?*

Technically, there is no appropriate capital structure for an IPO. Still, a low debt will decrease the risk of the company, and investors may feel more comfortable in investing in a more secure company. Construction companies related to public works usually have high debt levels, since their projects are complex and take much time, usually years, to complete. It is common to compare capital structures among similar companies in order to evaluate the risk.

Mota-Engil Africa had a D/A ratio of 79.30% and 78.33%, in the years of 2012 and 2013, respectively, while the parent had a ratio of 87% and 85% on the same years. Still, in order to properly evaluate Mota-Engil Africa, the company must be compared with similar enterprises in size, business type and local where it operates.

Furthermore, even if Mota-Engil Africa has a normal capital structure for a construction company, investors may still be reluctant in investing in the company because it deals with African markets, riskier than European ones because of political instability, economic environment, corruption and social issues.

4. *Was the initial decision of going public in the London stock exchange reasonable? (compare with going public in the Lisbon stock exchange or Amsterdam stock exchange)*

In order for companies decide where to go public they should take into consideration a series of factors. In a first instance, they must study the market and identify investors' base. Stock exchanges differ in liquidity, size and type of market. Mota-Engil, in order to realise the IPO of its subsidiary, had four main options to where it could choose from: London stock exchange, NY stock exchange, Lisbon stock exchange, and Amsterdam stock exchange. The first two are where investors interested in companies related to civil construction and frontier markets are located. The third option could be taken into account because the parent company was an important Portuguese company, and the last hypothesis could be considered because it is the place where the company going public has its headquarters. The first two seem, at a first glance, the best choice: what is important is to attract the type of investors that would be interested in investing in Mota-Engil. Furthermore, by being listed in any of the first two options would enable Mota-Engil, and Mota-Engil Africa, to achieve a more international outlook.

Furthermore, being listed at the Lisbon stock exchange would reinforce the wrong idea that Mota-Engil Africa is a Portuguese company, like the parent. Taking into account recent (2012) negative economic events that happened in Portugal reinforced the need to avoid having an excessive Portuguese connotation.

The Amsterdam stock exchange also had benefits: it was the second largest European stock exchange and one of the top 5 in the world regarding initial public offerings done in 2014<sup>17</sup>. Still, it wouldn't give as much visibility as the London stock exchange could achieve. NYSE would be the stock exchange to choose in order to obtain maximum visibility, but its listing costs, and the fact that Mota-Engil Africa has no direct connection to USA made the Mota-Engil board finally opt for the London Stock Exchange.

##### 5. *Discuss the role of investment banks in an IPO process*

Investment banks (IB) play a major role in the IPO process. They should be chosen with prestige, past history and location as criteria. IB will help companies to reach the targeted type investors, with the right asset priced at the most correct price, in a shorter time than what an alone company could achieve. Investment Banks help companies in the elaboration of the prospectus, on the writing of the equity story, on the placement of shares, and get in charge of selling the amount of shares that the company asked, taking all the risk of the operation for themselves (and that is way IPO fees aren't cheap). Underwriters are fully aware that companies need their services in order to increase the probabilities of a successful IPO, and for this reason conflicts of interest arise. On one hand, the company is paying for the increase in the success probability, and wants to sell the previously established amount of shares at the maximum price possible in order to receive proportional cash proceeds. On the other hand, IBs have to offer attractive deals to their "buy side" to keep functioning in the IPO market. Still, the majority of the times, an attractive deal to institutional investors is reflected on a lower share price. The process in which prices are reduced to satisfy investors is described by financial literature as "underpricing". On the short-term, underpricing the offers brings benefits to IBs, such as decreasing the risk of not having enough demand for the shares, increases the odd of making cash proceeds through the Greenshoe option (or over-allotment option), and makes the purchasers satisfied with the deal. However, in the medium term, issuers will tend to opt for IBs that do not follow underpricing strategies.

##### 6. *Why did the IPO failed?*

In the year of 2014, a combination of events revealed deadly for the IPO attempt of Mota-Engil Africa.

First of all, the BES Bank, which was one of the banks leading the IPO process of Mota-Engil Africa, went through serious financial difficulties in the year of 2014. Although the bank only went through a resolution in August, all the negative news about the bank in the first six months of the year, and the fact that the bank and Mota-Engil shared some history made international investors sceptical regarding Portuguese and Portuguese related companies.

Also, since BES was one of the major banks of the Portugal, its fall hurt the Portuguese economy, which saw PSI20 drop from around 6605 in the beginning of the year, to around 4800 at the end of it. In August, when the resolution of the bank occur, PSI20 dropped from around 6474 at the end of July, to 5802 at the 5<sup>th</sup> of August, and 5365 at the 12<sup>th</sup>.

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<sup>17</sup> "CEO da Mota-Engil África: Entrada em bolsa vai permitir uma maior "liquidez e visibilidade junto dos investidores"", *Jornal de Negócios*, 24th November 2014

Market conditions, although better than what they were in the crisis of 2009, they were still debilitated, and the European debt crisis, which involved five European countries, did not help at all the market sentiment. So the economic environment was still frail, especially in Europe.

Commodity prices, especially oil, also dampen the hypothesis of a successful IPO. At the beginning of 2014, the price of the oil was around the \$ 100 per barrel. In July oil reached the \$ 96 per barrel price, and from that time onwards it started its sudden fall that hasn't stopped yet (January 2016 with a \$ 36 per barrel price)

Another thing that could have also sabotaged the IPO was the fact that Mota-Engil Africa itself was kind of a recent company. Officially, it only had existed for 2 years before the IPO, and although it was a subsidiary of a more prestigious and bigger company, maybe that wasn't enough to avoid investors to retreat their offers went problems started.

7. *Why would Mota-Engil prefer a Technical Listing for the second attempt at becoming public? What could have happen if there was a second failed IPO attempt?*

A technical listing (TN), despite not enabling the company to earn cash proceeds, has many benefits, and it could be a better strategy than an IPO if the board was too unsure about future economic environment and share valuation. A TN is easier to execute than an IPO because there is no risk of failing: the company gives the shares to the stock exchange without having to sell them at a fair price, and becomes public, guaranteeing that the Special Dividend would be triggered, which would keep the promise that was made to ME shareholders on 2013. Still, the investors' base would remain the same.

If Mota-Engil decided to go for an IPO, and failed again, it would seriously damage even more the reputation of the company, which would devalue and maybe take longer time to recover from the process.

8. *Did the Special Dividend strategy create any value?*

The Special Dividend conceded to ME shareholders the right to 20 M shares in Mota-Engil Africa, which represented 20% of the company. These investors could, in proportion to their shareholding at ME SGPS, acquire at the rate of 0.10334084 Ordinary Shares in MEAFR for each Special Dividend right held.

The Special Dividend right was only triggered when Mota-Engil Africa became a public company, which occurred on the 24<sup>th</sup> November 2014 through the Amsterdam Stock Exchange. In order to know if this operation created any value, it must be analysed what was the value of an ME share before the listing, and the value of the package that an ME shareholder would obtain after the Special Dividend.

The 24<sup>th</sup> of November was a Monday. If a ME shareholder had sold one of his shares before the Listing, he would have obtained 4.21€ for it (using closing prices of the 21<sup>st</sup> November). If not, he could use that same share to activate the Special Dividend Right, and obtain 0,10334084 shares of Mota-Engil Africa, which started trading at the value of 11.50€ per share. Shares at ME decreased in value because of this operation, and at the end of the 24<sup>th</sup> they would be worth 4.17€. So, the value of the package would be  $4.17€ + 0.10334084 \times 11.50€ = 5.3584€$ , which is greater than 4.21€. So the Special Dividend strategy would indeed create value.

## **What happened?**

Mota-Engil, in order to not make the Special Dividend Right expire, decided to pursue with a Technical Listing, a strategy where the company becomes publically listed, but doesn't receive any cash proceeds from the process, as it would happen in a normal IPO. For this second attempt, the board decided to be listed in Amsterdam this time, since it didn't have enough free-float to be listed on the London stock exchange, and it also would be cheaper. The 24<sup>th</sup> November 2014 was settled as the date when the trading of shares would start.

At 17<sup>th</sup> November, Mota-Engil's shareholders included 44% free-float and family holding 56%. Following the Listing, and assuming the payment of the Special Dividend right, it was expected that ME would hold 82.08% of the voting rights of Mota-Engil Africa.

The stock started trading at € 11.50, lower than what was set for the London stock exchange (which was between € 11.70 and € 14.70). When the trading started, ME's shares dropped in value and there was indeed value creation through the Special Dividend mechanism, value explained on question 8.

On the 10th December 2015, Mota-Engil Africa stopped being listed at Euronext Amsterdam. For that to happen, the parent company had to incur in a capital increase through the selling of 44.6 million shares at 1€ each. The reason why Mota-Engil Africa left the stock exchange was because of the low level of free-float available, which represented low liquidity levels. Furthermore, the stock value from the subsidiary dropped so much since the time it was initially quoted that the board believed that it didn't represent the fair value anymore. The company's shares, at the end of 2015, were worth € 6.1235, while their initial price at the Amsterdam Stock exchange was € 11.50.

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