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MOTA-ENGIL New prospects of growth: Overcoming the financial crisis

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Abstract

The 2008 global financial crisis caused the collapse of business key sectors, declines in consumer wealth and a fall in economic activity resulting in a global recession. In some European countries, the 2008 crisis contributed to a sovereign-debt crisis which had a strong impact in Southern European countries. The construction sector was particularly affected, with budget cuts disturbing public investment and no financing available for private constructors.

This report intends to explain how Mota-Engil, faced this situation of low growth, and which strategies were adopted by the management to overcome the difficult economic conjecture, mainly in its domestic market: Portugal.

The report is organized as a case-study. The first part, the case narrative, is subdivided into 6 parts, and the second part is the teaching note. The teaching note is constituted by the four questions and their respective responses.

Keywords: Construction, Mota-Engil, Financial crisis, diversification, internationalization

I. Case Narrative

1. A family firm over 7 decades

Mota-Engil (ME) is a Portuguese multinational company with presence in Europe, Africa and Latin America. In Portugal ME is the leader in the construction sector, port operations and waste management. The company has operations in three continents and over 28000 employees with 45 different nationalities working in 20 different countries. (M&E, 2012, Institutional presentation).

Currently, the company is focused in reinforcing its international presence through diversification and by enlarging its current operations. ME history started 67 years ago in July 1946, when Manuel Mota founded *Mota & Companhia* (M&C), a family company in the public works and the construction sector. In that same month, M&C expanded its activity creating its first branch office in Angola. In 1962 they had its first large international project, with the construction of Luanda's International airport, and in 1975 expanded its operations to other African countries, thus beginning its process of internationalization. In the meanwhile, Engil, a civil engineering society was founded in Lisbon in 1952. Engil started its internationalization in Venezuela 1978, in association with another company *Retosa*. Engil participated 2 years in the construction of factories and dams, until an unfavorable economic conjecture led it to interrupt its internationalization process. They resumed it many years later, entering Mozambique (1993) and Peru (1996). M&C continued with its sector diversification throughout the 90's in areas which are complementary to construction and others which are diverse (Figure I). In 1994 M&C entered the *Ponte Vasco da Gama* consortium and the transport concessions business. In 2000 M&C bought Engil SGPS, creating Mota-Engil. At this time, there is a restructuring of the company and intensification of the

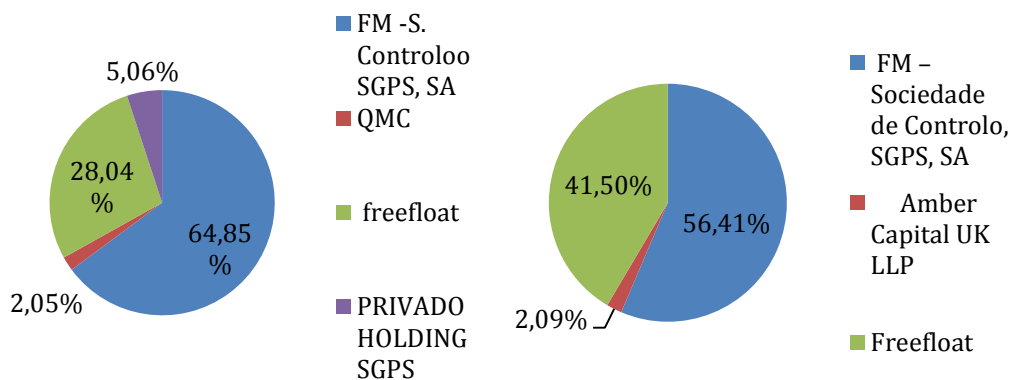
strategy of diversification, especially in the transport concessions and environment and Services. In 2005, ME entered the PSI 20 stock exchange. (M&E, 2013).

Table 1: Sector diversification over time

	1950	1980	1990	2000 (Merger between M&C and engil) - Mota-Engil	2005	2013
M&C	Engineering and Construction · Infrastructures · Civil construction · Real estate · Exploration and transf. of timber	Engineering and Construction · Infrastructures · Civil construction · Real estate	Engineering and Construction · Infrastructures · Civil construction · Real estate Electrical engineering Railways Road signalization Pre-fabrication of structural elements Ceramic products Asphalt products Vehicles commercialization Logistics. Ink industry Transport Concessions	Engineering and Construction · Infrastructures · Civil construction · Real estate Industry & Energy · Metallic construction · Maintenance Environment and Services · Waste · Water · Ports and Logistics · Used oils · Parking · Rental of construction equipment · Landscape architecture · Transport Concessions	Engineering and Construction · Infrastructures · Civil construction · Real estate · Other business areas Industry & Energy · Metallic construction · Bio-fuel · Wind energy Environment and Services · Waste · Water · Ports and Logistics · Multiservice · Transport Concessions · Highways · Motorways · Bridges · Railways	Engineering and Construction · Infrastructures · Civil construction · Real estate · Other business areas Environment and Services · Waste · Water · Ports and Logistics · Multiservice · Energy Transport Concessions · Highways · Motorways · Bridges · Railways Mining · Prospecting · Extracting
Engil		Engineering and Construction · Infrastructures · Civil construction	Engineering and Construction · Infrastructures · Civil construction	· Highways · Motorways · Bridges · Railways	· Highways · Motorways · Bridges · Railways	· Highways · Motorways · Bridges · Railways · Underground Mining · Prospecting · Extracting

Source: M&E, 2013, Official website; M&E, 2002, 2005, 2013 R&C

Figure 1: Shareholder distribution (December 2011) Figure 2: Shareholder structure 2013



Source: M&E, 2011 R&C

Source: M&E, internal e-mail

2. Shareholder structure

Mota-Engil continues to be a family company (56,41% equity stake). This is a large percentage, in terms of one major shareholder, if you compare with other similar

companies throughout Europe (Table 2). In Southern Europe you can see companies with similar structure to ME, especially in Spain, but in Northern Europe the shareholders structures are different and possess a much larger percentage of free float.

Table 2: Free-Float in other construction companies

Country	Company	Free Float	Family ownership
France	Bouygues	42,22%	20,80%
Spain	Ferrovial	37,29%	50,20%
Sweden	Skanska	69,49%	-
England	Balfour Beatty	59,57%	-
Portugal	Mota-Engil	41,50%	56,41%
Portugal	Teixeira-Duarte	24,37%	53,03%
Portugal	Soares da Costa	17,92%	71,04%

Source:www.4-traders.com; M&E, 2013; T&D R&C, 2013 R&C; SdC, 2012 R&C

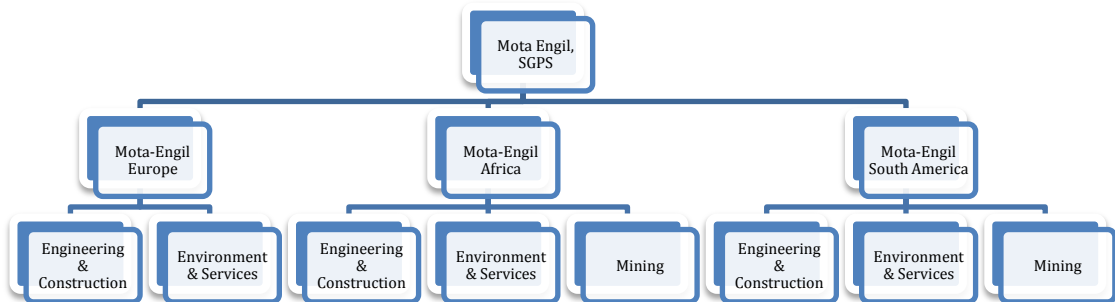
Recently, ME increased its free-float to 41,50% which led to an increase of liquidity of the stock, and an approximation of the current free-float levels of other European companies. This increase in the Free Float for ME was possible due to the collaboration of Mota's reference shareholder- Mota Gestão e Participações, SGPS, SA that sold 34.300.000 ordinary shares through a process of accelerated book building (M&E, 2013 R&C).

3. A new organizational structure

Last year, ME decided to change its corporate structure by dividing it into three geographical regions: Europe, Africa and South America. This change from business areas (Old structure was organized as business sectors: Engineering and Construction, Environment and services and Transport concessions) to geographical regions, was justified by the different social/legal and business context that each region is inserted in. Working in Africa is different than working in Europe or Latin America, and this is why it made no sense to comprise 3 regions in one sector like construction and engineering, and have it managed by someone in ME Portugal. Now each region

has its own independent management board, which is responsible for conducting operations and managing people and resources. Also, there are plans for a CEO from each region to participate in the ME meetings with the board of directors (M&E, 2013 R&C).

Figure 3: ME New corporate structure



Source: M&E, RC 2013

Engineering and Construction (E&C) is the core business of the group and is present in all three geographical areas. Environment and Services (E&S) include the activities of waste, water, ports and logistics, multiservice, and energy. Transport concessions, are explored by Ascendi Group, which ME owns at 60% and *ES concessões* the other 40%. The mining segment is the most recent. Its activity is based in Africa and South America, mainly in Peru. (M&E, institutional presentation- internal document 2012).

The definition of its corporate strategy, through its strategic plan *Ambição 2.0*, led the company to adapt its structure, so that it would act as the basis of action and support the company in achieving the proposed objectives in the plan. This new strategy actualization, which led to changes in ME's structure, was a response to new opportunities mainly Africa and Latin America markets, which have high growth prospects especially in E&C, but also in the E&S. This way diversification and internationalization are the focus of the company right now.

4. Internationalization and diversification

ME has mainly used two forms to internationalize its business: acquisitions and consortia. Acquisitions, is purchasing another company already operating in the host country. It is a quick way to move into a foreign market (Wheelen&Hunger,2000). For example in 2012, ME entered Brazil by acquiring ECB (*Empresa Construtora Brasileira*).

Consortium can be the most feasible way for construction firms to enter certain markets (Sousa, Silva. 2008). A consortium is formed to execute a certain project with limited durability (Sillars and Kangari. 2004). These are formal cooperation agreements between firms which do not imply capital sharing, nor the creation of a legal entity. Both parts have legal and strategic autonomy. (Sousa, Silva. 2008). ME has used consortiums to develop some of its major projects, and in 2014, in Mexico, following an ambitious infrastructures program launched by the government, Mota-Engil MEXICO is planning to join a consortium with several other Mexican construction companies to execute the program. (M&E, R&C 2013)

Table 3: Total sales and EBITDA(Group) (In millions)

TOTAL Sales and EBITDA (Group)	2009	2010	2011	2012	2013
Sales	1.979	2.001	2.176	2.243	2.314
EBITDA	196,3	237,3	277,4	287,5	362,8

Source: M&E, 2013 R&C

Internationalization represents a major part in ME. In the last 5 years it has demonstrated an upwards tendency, representing now 74% of the company's activity (figure 7). ME has been an international company for a long time. Angola in 1946 and more recently Peru in 1996, were the entry gates for what are now the most important

international markets for ME, Africa and Latin America. Both these markets represent 62% of ME’s turnover in 2013. (figure 4).

Figure 4: Turnover by region

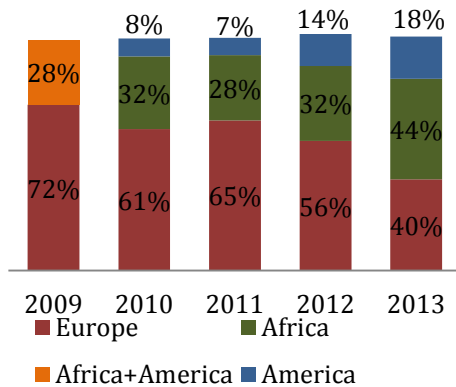
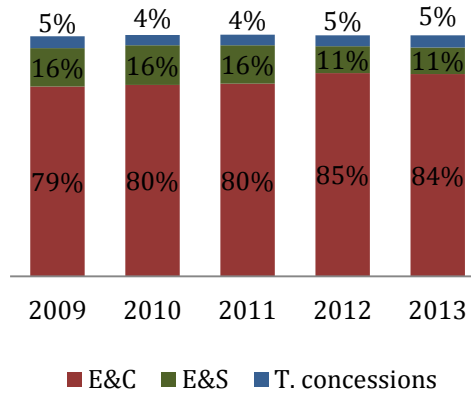


Figure 5: Turnover by business sector

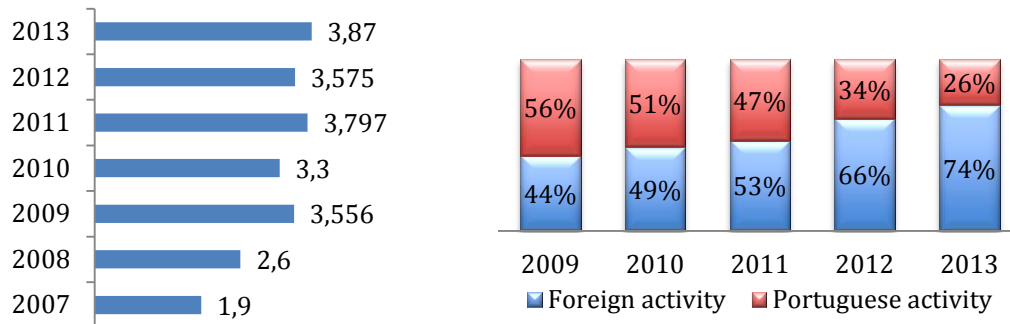


Source: M&E, 2013 R&C

Internationalization presents new opportunities to generate extra value and boost the company’s sales in the future. The amount of book orders is around 3,87 billion (46% Africa, 35% America, 15% Europe E&C and 8% Europe E&S) (figure 6). Book orders, help to predict future sales and a high amount equals financial stability and good prospects for the future of the company. Sector diversification is not very high in ME, despite of their efforts. Construction still represents a great part in their sales, 84% (figure 5), mostly due to the development of the African and American construction sectors. E&S is losing weight on total turnover, because its growing at an inferior rate than the international construction business, thus representing a minor percentage of the total pie. Transport and concessions represent 60% of Ascendi total sales(after 2010), which is ME ownership percentage of the company (Figure 5).

Figure 6: Book orders

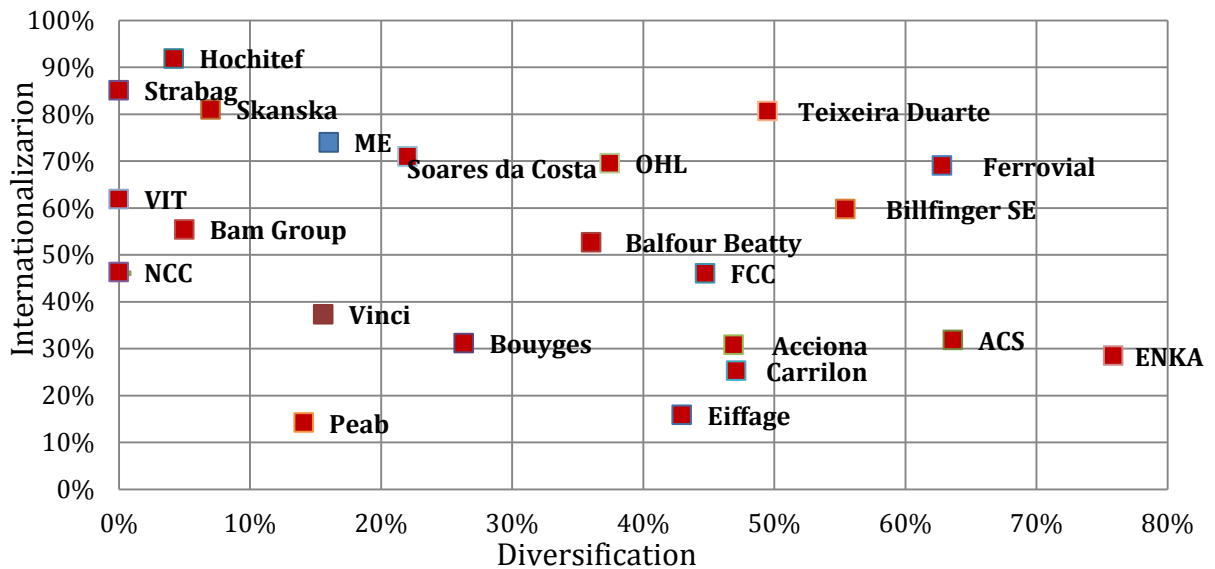
Figure 7: Turnover by business sector



Source: M&E, 2013 R&C

Construction has had its activity affected by the deficit-cutting policies adopted by most governments in Europe, for example, the Portuguese government. This situation is similar to most construction companies over Europe, with drops in the construction sector forcing them to adopt diversification strategies aimed at both achieving sustainable growth and increase the traditionally low margins obtained in the construction business (Deloitte, Epc 2012). This diversification has a certain degree of relatedness, meaning that the sectors have a certain common skill, resource market, or purpose and share common clients (Rumelt, 2011).

Figure 8: Internationalization and Diversification



Source: Deloitte, 2012 Epc; TEIXEIRA-DUARTE, 2013 R&C; Soares da Costa, 2013 R&C

In this chart, we can see the degree of internationalization and diversification of the top-20 European companies and 3 Portuguese companies: Mota-Engil, Teixeira-Duarte and Soares da Costa. Internationalization is the number of sales the company obtains in foreign markets and diversification is the amount of sales from non-construction activity. Amongst the Portuguese companies Teixeira Duarte has the highest degree of both (50% non-construction sales and 81% international sales). Soares da Costa places itself close to ME (22% Non-construction sales and 71% international sales vs. 16% and 74% for ME, respectively). These three Portuguese companies are pursuing a strategy that aims to increase its diversification and internationalization, in order to escape the declining of their domestic market and to overcome the drop in construction in Portugal.

5. Regional analysis

Europe

The major markets for Mota-Engil in this region are located in Portugal and Poland, where ME has been present for 15 years now. Both these economies have had their construction sectors destroyed in recent years, due to cuts in public and private investment as well as austerity impositions from foreign entities. Poland continues its budget consolidation efforts, initiated in 2011. There have been relevant cuts of public investment and public consumption after the end of Euro 2012, with new fiscal policies being implemented. (M&E, 2012 R&C).

Figure 9: Sales Europe (millions of Euros)

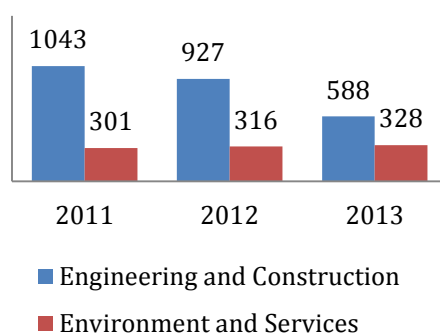
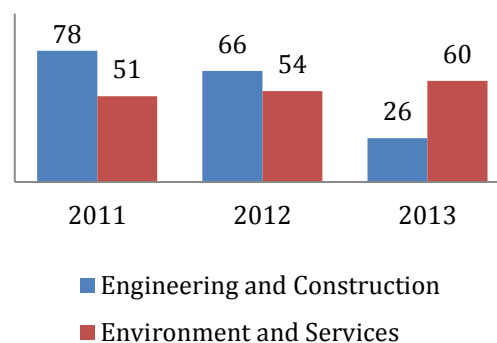


Figure 10: EBITDA Europe (millions of Euros)



Source: M&E, RC 2013

In both graphs we can see a downwards tendency, in the case of construction, which represents the majority of the sales in the region. ME has had a positive performance in the E&S sector. Portugal represents the major market in the E&S sector nearly 86 % (Total Group E&S: €380,1 million). The main contributor for this is the logistics segment (6,8% growth), which is responsible for the Portuguese ports management and has benefited from the increase in Portuguese exports in recent years. In 2013, for the first time, the EBITDA contribution from E&S was higher than E&C. Europe is the most diversified market for ME. (M&E, 2013 R&C)

Sub-Saharan Africa

Africa is now the biggest market for ME, after surpassing Europe in 2013 in terms of turnover (44% of the group's total activity when it only represented 32% in 2012). This was the direct consequence of the retraction of the E&C sector in Europe and the exponential growth that occurred in Africa, a continent with shortage in infrastructures, thus presenting a great opportunity for ME to grow. Angola is the main market in Africa, representing around 50% of the activity in the region. ME activity is also well placed in markets such as Mozambique and Malawi where a series of projects are in progress. (M&E, 2013 R&C)

The group is always looking for new markets and future prospects of growth, in order to increase their geographical influence. For example, it is expected in the short term the beginning of operations in both Ghana and Uganda. It's also important to mention the admission of stocks of Mota-Engil Africa in the European market, as it will increase visibility and enable global investors to have the possibility to invest and directly benefit from ME's operations in Africa, its most profitable market. The process

is still in an initial phase, with ME analyzing the financial markets of London, Amsterdam and Lisbon. (M&E, 2013 R&C).

Figure 11: Turnover Africa (in millions)

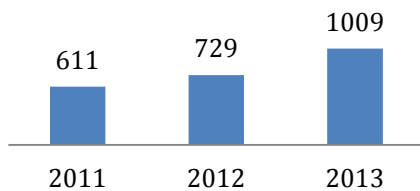
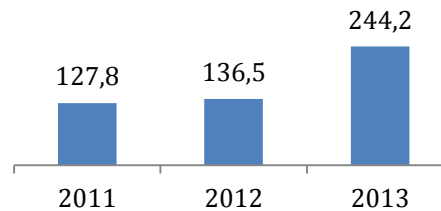


Figure 12: EBITDA Africa (In millions)



Source: M&E, 2013 R&C

ME African sector had an estimated growth of 38,4%. This was the result of the group's strategy for the region, which lies on the search for opportunities in the sectors with the highest potential, like E&C, mining and logistics. Another important and decisive factor for the future of the region is the excellent order book value of 1.621 million€(41% of total order book).

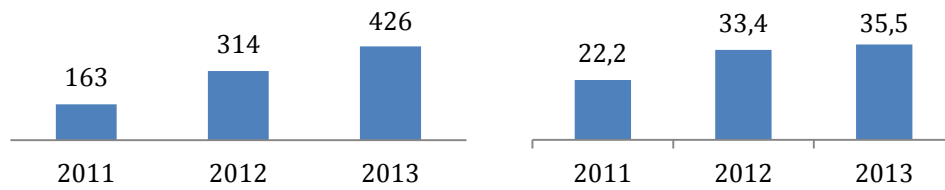
Latin America

Latin America is seen as the future of Mota-Engil. The region has a book order value of 1,35 billion Euros(34% of total order book), it has grown above 35% in 2013, and according to "*Ambição 2.0*" strategic plan this region will contribute around 27% for the group's turnover by 2015 (current level is 14%). ME has operations in four countries: Peru, Mexico, Brazil and Colombia.

According to a recent briefing held by Mr. Augusto de La Torre, World Bank chief economist for Latin America and the Caribbean, this region is influenced mainly by three main aspects: foreign investment, price of commodities and currency variations. Foreign investment plays an important role in these economies. They create value and help the countries build important infrastructures which will create local jobs and improve the population's mobility and quality of life. ME is an example of this.

Figure 13: Turnover Latin America (In millions)

Figure 14: EBITDA Latin America(in millions)



Source: M&E, 2013 R&C

The total turnover for this region was around €426 million, which indicates a growth of 35,8% relatively to the previous year. E&S sector is still residual in this area, with E&C representing most of the sales. In the future, the strategy for this region is to consolidate the group's presence and diversify both geographically and in different sectors. Recent news about new adjudications, in roads, waste management and metropolitan totaling €520 million, reinforces the region's book orders and confidence towards the future.

6. The impact of the financial crisis

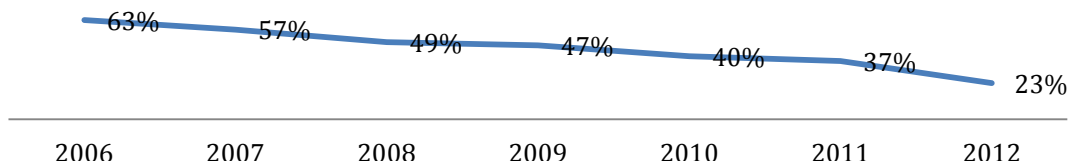
According to FEPICOP¹ report 2013 was the worst year for the Portuguese construction sector in nearly 40 years. In the public construction sector, until October 2013, €775,8 million Euros were adjudicated, which represents a drop of 27,8% compared to the same period last year. For the private sector, the drop was also relevant, with permits for new residential buildings decreasing 29,6%. For the 3rd semester of 2013 the total number of people employed in this sector was 288.900 which translates in a reduction of 66.800 people (-18,8%). If you consider a longer life span, like for example 2002 the total loss of jobs is 319.693, which accounts for a 53% reduction.

The problem for this sector was that there was too much residential construction and excessive public works, which enabled the development of many construction companies that are now in bad financial shape or in many cases bankrupt. The best

¹ Portuguese Association of construction sector and Public works

example of unnecessary public investment was some Euro 2004 stadiums which are now empty and are just too big for the country's dimension. According to the FEPICOP report, the main drivers for poor performance from the sector were insufficient demand (85,2%) and lack of financing (49,3%). Nevertheless, there is some positive data within the Portuguese entrepreneurs , until October 2013 there was a recovery of 1,3% in the European confidence index, consequence of an increase of 2,9% of job perspectives for the next three months.

Figure 15: Portuguese E&C sector diminishing weight on total group sales



Source: M&E, 2013 R&C

These numbers show the huge impact that the sovereign debt crisis has had in ME's Portuguese construction sector. Severe austerity measures, along with strong budget constraints negatively impacted the economic activity, resulting in GDP reduction and consequent economic recession. All major infrastructure prospects like the new Lisbon Airport and the high speed train – TGV were put at a hold, due to strong retraction of the public investment sector.

Table 4: Data concerning construction sector in Portugal

	2011	2012	2013	Jan-14	Feb-14
Unemployment (thousands)	73,8	97,3	101,6	93,4	95,8
Public works	-17,7%	-34,4%	18,3%	-	-
Residential (Licensing)	-29,0%	-33,3%	-29,2%	-17,9%	-18,6%
non-residential (Licensing)	-10,1%	-23,6%	-5,3%	33,9%	7,9%
Ciment consumption	-15,4%	-26,7%	-22,9%	-15,2%	-17,4%
Book orders (Europe)	7,0%	-1,4%	2,9%	2,8%	5,2%
Book orders (Portugal)	-15,8%	-40,5%	51,4%	89,2%	80,2%

Source: FEPICOP, April 2014. Years: annual variation Months: variation relatively same period last year

Last year there have been some signs that the Portuguese economy is recovering. The unemployment rate for the 4th trimester of 2013 was 15,3% (-1,6 percentual points relative to last year) Also, the GDP started growing again in the last trimester of 2013 with 3,1% growth, when in the previous year there was a negative variation of 3,2%. By analyzing table 4, we can see that unemployment in the sector is lowering after reaching its highest value in 2013. The non-residential licensing is showing a positive growth and there is a huge book order increase, which anticipates a better future for the sector and boosts the confidence indicator of Portuguese entrepreneurs with a positive variation of +61% in the first two months of 2014 (FEPICOP,2014). Recent news from the Portuguese Department of Economy show that the Portuguese government plans to spend more than 6 billion Euros until 2022 in transportation systems and infrastructures.

II. Teaching Note

Question 1: Perform a SWOT analysis in order to evaluate the companies context, and Strengths, Weaknesses, Threats and Opportunities.

Question 2: What was the impact of the financial crisis in Mota-Engil's sales, and how well prepared were they, when it initially struck in 2008?

Question 3: Mota-Engil was born and remains as a family company. The family has sold part of their share in order to increase the company's free-float. Is this equity likely to be further diluted in the future and come closer to its European peers levels, or will the family manage to keep its high ownership?

Question 4: Before the financial crisis there were huge amounts of credit available to finance construction in Portugal. Banks lent money, with low interest rates and other attractive conditions. This resulted in increasing indebtedness for the construction companies, which like ME, now have to deal with an enormous debt. How can ME manage this debt and in what way may it jeopardize ME's future?

1. SWOT analysis

I have set the main objective of Mota-Engil, as the ambition to continue growing in the future by means of an international and diversified portfolio

Strengths

- Leader in waste management in Portugal (48%) and relevant position in Logistics and water. It is also the largest firm in the fragmented Portuguese construction sector;
- Extensive *know-how* and experience in many types of projects, especially big construction projects, positioning them in the front line for new public contracts;
- In Africa, they have built a privileged strategic position over 68 years, benefiting from an important alliance with the state-owned company *Sonagol* in Angola;
- The change in the governance model to regions instead of business units;
- Reputation as a good construction company. This is an important intangible asset that is the result of years of activity and established position in the market;
- International activity of the group represents 74% of total activity.

Weaknesses

- ME is still very small compared to other European players. This is a major obstacle for to compete in the international markets, especially in high-scale projects.
- Large family shareholding deterring the entrance of small investors, which fear that management may be taking actions in the interest of ME family - tunneling effect;
- High indebtedness level;
- Martifer low performance.
- Not very high sector diversification.

Opportunities

- Presence in emerging economies like Africa and Latin America which are predicted to have high growths in the following years, especially in the construction sector;

- Subsidies from the European Union, for infrastructure development in less developed regions like Poland. Similar support programs exist in Africa to promote infrastructure development in that region;
- Potential to increase its free-float in the future and obtain a larger pool of investors;

Threats

- Interest rate risk – higher payments
- Exchange rate risk –In Africa and Latin America, currencies present great volatility;
- Liquidity and credit risk
- Financial crisis. Although the worst part of the crisis has already passed its consequences remain real.

2. Impact of financial Crisis

ME remained particularly resilient when faced with the 2008 financial crisis. The E&C sector grew 40% from 2007 to 2008 and 15% from 2008 to 2009 (M&E, 2008, 2009 R&C). However, it was only a matter of time and in 2010, the crisis finally struck the European construction sector with drops of 24% in the Portuguese segment and 17% in the central European segment. (M&E, 2010 R&C). These drops, led ME to fail their expectations for 2010 where they predicted a 5% increase in construction, and in reality saw their activity drop 3%(overall). The environment and services sector continued to grow in this period.(2008: 15% growth, 2009; 17% growth; 2010; 25% growth).

In 2011, the financial markets pressured the fragile Portuguese economy resulting in a political crisis and a series of austerity measures for the following years. The economy shrunk 1,5% and the yield for 10 year Portuguese maturity bonds was higher than 12%. Other segments like water and waste management, which depend on city halls agreements, didn't meet the desired results due to budget cuts from the central government. (M&E, 2011 R&C). The Portuguese engineering and construction market

continued its downwards spiral in 2012 (-27%), and 2013(-15%), due to excess of installed capacity and crushed margins.

In the beginning of 2008, before the financial crisis, ME started preparing a strategic plan named *Ambição 2013*, summarizing goals and objectives that the company should achieve between the periods 2009 and 2013. Prescriptive strategy has taken the approach that a rational and fact based analysis of the options will deliver the strategy that is most likely to be successful: logic and evidence are paramount in choosing between the options (Lynch, Richard. 2009). The plan was based on four main principles: sustainable growth, diversification, internationalization and development of Human capital (M&E, internal document – *Ambição 2013*)

From early on, Mota-Engil established that internationalization was one of the major objectives of the company, as well as diversification. In spite of some drops in sectors, the overall total sales for the group never stopped to grow. The lowest growth was registered in 2010 (1% growth compared to 2009) (M&E, 2010 R&C). When the financial crisis hit in late 2008, ME already had a plan of action that gave some guidance through the rough patch. The strategy had to follow a logic of increasing presence in international high growth markets while the domestic market would gradually shrink over the years. In addition, diversification would reduce exposure to the cycles of the construction sector. Another key point for ME was human resources management. International mobility, job rotation and recruiting people from international boards were priorities.

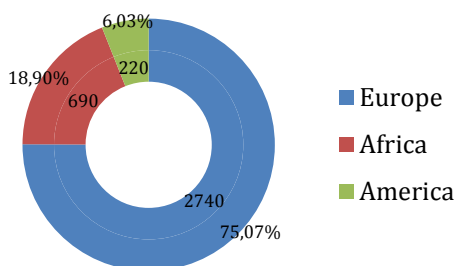
Results

In spite of the difficulties and adverse conjuncture, the strategy behind *Ambição 2013* revealed itself as successful. ME was able to consolidate its position as the number one construction firm in Portugal. Its revenue increased from 1,7 billion Euros

in 2008 to 2,3 billion Euros in 2013, reinforcing its market share and it is now the 33th biggest European company in terms of sales (Deloitte, EpoC 2012). Another important objective that was successfully achieved was the increase in internationalization. By 2013, 74% of the group’s revenue came from foreign markets and total volume of business from E&S sector increased from €283 million to €380 Million . ME successfully entered into Brazil and Mexico. In this period, ME also reorganized the transports concessions sector by transferring all the assets and concessions to a newly formed company named Ascendi. ME has entered the mining sector through the recently created subsidiary, Mota-Engil mining. This company has undertaken prospecting projects in Africa, and is now working with some of the largest mining companies in the World (M&E, 2013 R&C)

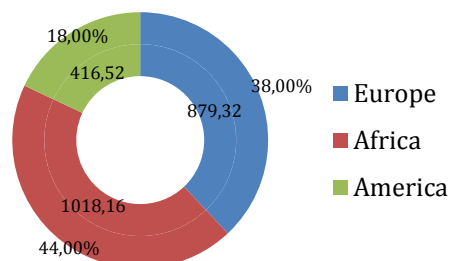
In spite of the overall success, ME failed to reach some goals. For example, it is still far from its objective of achieving a diversified portfolio, similar to the Portuguese portfolio, in other regions in the World. They have failed to enter the new markets of Ukraine and India (which they proposed as one of the objectives). (M&E, *Ambição 2013, internal document*)

Figure 16: Turnover predicted for 2013(In thousands)



Source: M&E, Internal documetn – ambição 2013

Figure 17: Actual turnover in 2013 (In thousands)



Source: M&E, 2013 R&C

By comparing these two figures we can see great disparities in the turnover predictions. The chart on the left was made in 2008 in a completely different context, and before the subprime crisis in 2008. In that year the turnover was 1.870 billion Euros, and ME experts believed that by 2013 it would grow to an impressive 3.650 billion Euros, nearly doubling the amount of turnover in 5 years. However, the actual turnover was much lower, standing at 2.314 billion Euros (23% increase). The discrepancy in numbers is explained by the decrease of construction activity in Europe, but more significantly in Portugal, which was ME major market at the time. Also, ME hoped that the development of other sectors in Central Europe would be much more advanced by 2013, for example water and waste management.

On the bright side the actual turnover in Africa and America was higher than predicted in 2008, Africa 1.018,16 vs 690 Billion Euros and America 416,52 vs 220 Billion Euros. Around 50% of the turnover African turnover comes from Angola, but other markets like Malawi, Mozambique and South Africa are gaining importance and have a much bigger impact than the one predicted in 2008². ME has already developed a new strategic plan for the period 2013-2017: *Ambição 2.0*. The new strategic plan, uses the same base concept as the previous plan, and is seen as a continuation of it.

In conclusion, ME was able to overcome the financial crisis due to prior preparation and due to the definition of a strong strategic plan that guided the company through the financial storm. Although the turnover is not as large as predicted, they didn't anticipate the economic crisis in early 2008, and in reality, the company was always able to grow in the period. The definition of internationalization and diversification as their number one priority was the correct decision at the time.

Table 5: Benchmarking between the 3 biggest Portuguese companies

² In 2008 it was predicted that other markets in Africa would only account for 2% of the turnover

(in millions)	2008	2013	Growth (%)
Mota-Engil	1.870	2.314	23,7%
Teixeira-Duarte	1.261	1.630	29,3%
Soares da Costa	835	802	-4,0%

Source: M&E, T&D, SdC, 2013 and 2008 R&C

3. Mota-Engil: A family company

There are a lot of construction companies that start and remain as a family business. In Portugal, ME's biggest competitor Teixeira-Duarte is also a family owned business, Teixeira-Duarte family owns 53,03% of the company (Teixeira-Duarte, 2013 R&C), and Portuguese business man Manuel Fino owns Soares da Costa in more than 70% (Soares da Costa, 2012 R&C). So this type of structure is normal, at least in the Portuguese construction companies. If you look at the European panorama, the story is a little bit different but there are still companies like Bouygues and Ferrovial that started as a family owned business, but today the stake owned by the family is much lower when compared to the Portuguese context (Bouygues family 20,80% and Del Pino family 41,1%) (Bouygues and Ferrovial, 2013 R&C). The most common structure amongst the top-20 European Construction is for the companies to have lots of different investors, instead of one major shareholder. (Deloitte Epoc, 2012)

To understand if ME's family structure is sustainable, I am going to give an oversight of how Mota family is running the business and who is leading the company destiny in terms of strategic planning. ME has a structure that clearly indicates each governing body and who is responsible for each task in the delegation and daily administration of the company. The three main bodies in this structure are the general assembly, the administration council and the executive committee. The general assembly is constituted by 15 members, 9 of them are non-executive and 6 are executive. Only the executive members constitute the executive committee. 5 members of the Mota family are part of the general assembly (33%), including the president

Antonio Mota. They are all non-executive members except one – Carlos António Vasconcelos da Mota. The general assembly is responsible for all administration acts, determining the strategic orientation and nomination and supervision of the executive committee. The executive committee, manages ME's activities, executing the strategy defined by the general assembly. This includes taking tactical options and development of several activities, assuming the responsibilities of executive management of the group's businesses in line with the strategic orientations set by the general assembly. CEO Goncalo Moura Martins is the president of the executive committee. (M&E, 2013 R&C). This way it is clear that Mota family plays an important part in the group, as they are part of the general assembly, and have a relevant part in defining the general outlines of the group's strategy. However, they left the execution and tactical decisions to the executive committee, to people who are better prepared and have the formation to deal with the obstacles and specificities of implementing a strategy.

ME is now on its third generation. The current president is son of the company's founder Manuel António Mota. Carlos Antonio Vasconcelos Mota dos Santos (member of the general assembly and executive board) is the son of Maria Manuela Queirós Vasconcelos Mota dos Santos (also member of the general assembly). According to a article 70% of family-owned businesses fail to reach the second generation, and only 13 percent continue to the third due to failing in conceiving a succession plan (Bonnecaze, Randy. 2003). So based on these statistics, ME is a successful family company. Some of the reasons behind this success, was its ability to incorporate family members into the company in a continuous process. The general assembly members have worked their entire professional life in Mota-Company, and when Mota bought Engil in 2000, they all assumed a position in the general assembly. Their professional degrees are either in civil engineering or economy, and the third generation member has taken an

undergraduate degree in engineering and a masters in economics. So, even their academic choices are made according to the core business of Mota-Engil. Also, when they needed to, they hired outside people that brought managerial capabilities and leadership skills to the company, like the former CEO Jorge Coelho and now its successor CEO Gonalo Moura Martins (M&E, 2013 R&C).

In conclusion, and answering the proposed question, in my opinion ME has planned its succession plan very well and has carefully thought of the future of the family inside the company, by including them from an early age in day-to-day operations. Mota Engil’s president Antonio Mota is retiring this year, so there is a new phase in the company that is coming up supported by the definitions of goals of the strategic plan *Ambiao 2.0*. *“integrate a comprehensive written business strategy into your succession plan. It should clarify business goals and growth plans for the next five to 10 years. Make sure your successor (and his or her management team) understands it - doing so will go a long way toward creating peace of mind and easing the transition”*.(Bonnecaze, Randy. 2003).

4. Indebtedness

To analyze ME’s numbers relative to the sustainability of its debt I used key statistics such as debt-to-equity ratio, Net debt/EBITDA, the amount of interest paid each year and the amount of short-term debt. Mota-Engil is facing difficult times, concerning financing as current level of banks lending are very low.

Table 6 : Net Debt/EBITDA and Debt to equity ratio

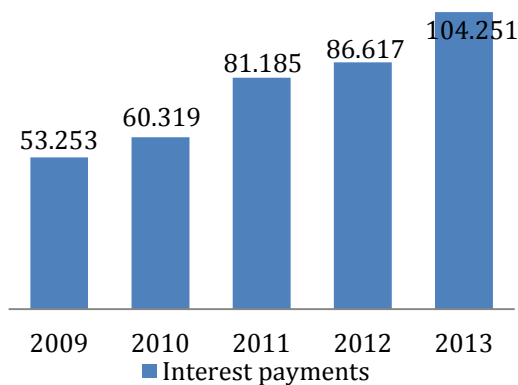
2013	Debt ratio	Debt equity ratio	Net DEBT/EBITDA	Country
Mota-Engil	85,2%	5,7	7,9	Portugal
TEIXEIRA-DUARTE	87,0%	6,7	10,5	Portugal
Soares da Costa	97,0%	32,7	22,8	Portugal
Vinci	77,2%	3,4	2,3	France
Bouygues	54,2%	2,0	1,5	France
Skanska	78,1%	3,6	0,9	Sweden

Ferrovial	75,1%	2,7	5,5	Spain
ENKA	34,9%	0,5	-0,9	Turkey
Average	73,6%	7,2	6,3	

Source : deloitte Epoc report. M&E, TEIXEIRA.DUARTE AND Sdc, R&C 2013

Current levels of indebtedness for ME are quite high. In 2013 net indebtedness reached €972 Million (2012: €850 Million). Also ME is an extremely leveraged company, if we consider the debt ratio it is equal to 85,2%. This means that ME uses a lot of debt to finance its activity. The higher the ratio the higher the risk. In this aspect, the three Portuguese companies have the highest leverage (Table 6). The debt-equity ratio is similar to the previous but compares debt with equity. ME has 5,7 ratio, which is below its Portuguese competitors but higher to the other construction companies. Again this is another indicator of high leverage for the Portuguese companies. The Net Debt to EBITDA ratio is interesting because it shows how many years it would take a company to pay back its debt if net debt and EBITDA held constant. ME would take 7,9 years, which is a lot. Any number higher than 3 indicates that the company is less likely to be able to handle its debt burden (Vernimmen, Pierre. 2011) but the numbers from Soares da Costa are off the chart, and really demonstrate the poor financial health of the company.

Figure 17: Interest payments thousands of Euros



Source: M&E, 2013 R&C. TEIXEIRA-DUARTE, 2013 R&C, Sdc, 2013 R&C

Tables 7 and 8: Interest coverage ratio and Net-debt ratio

2013	Interest coverage ratio
Mota-Engil	2,3
Teixeira-Duarte	1,3
Soares da Costa	0,1

Year	Net Debt/EBITDA
2010	11,7
2011	9,7
2012	10,1
2013	7,9

Since 2009, interest payments have increased and are starting to become a real burden for ME (Figure 17). ME's coverage ratio is now 2,3, which means it is still able to comply with its interest payments obligations³. Table 8 is demonstrating the oscillation of ME's Net Debt/EBITDA ratio over the last 4 years. ME is taking some action in order to keep its financing stream. The construction market demands high levels of investment in order to finish projects and grab new profitable opportunities. Since, many of these projects are abroad ME is starting to finance itself in international institutions instead of the Portuguese banks. ME creates subsidiaries abroad to be able to give assets as collaterals. This can be good since it allows ME to diversify credit supply, but on the other hand they can't sell these assets in the future if they need to, because they are tied with an obligation. This year ME has done a process of accelerated book building, which is often used when a company is in immediate need of financing and debt financing is out of question (Iannotta, Giuliano. 2010) (M&E, 2013 R&C)

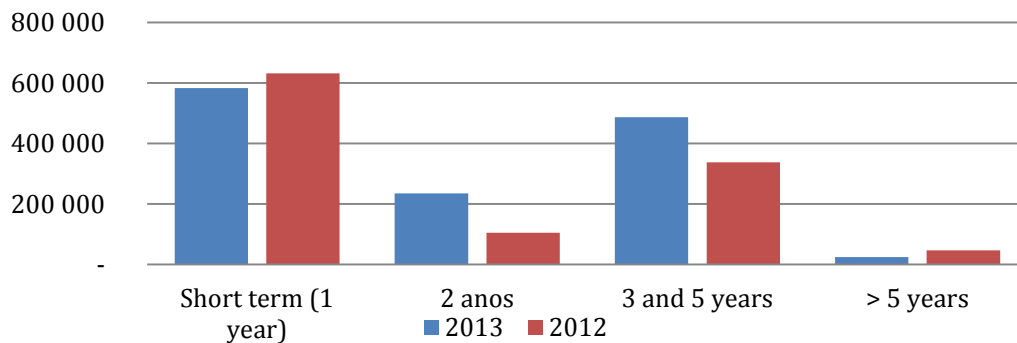
ME is also transferring short-term debt to long-term debt, as a strategy to increase the debt's maturity. This will help easing short term payments but increase long terms obligations. ME hopes that increase in sales in the future will enable them to fulfill their future obligations. (Figure 9)

In conclusion, ME should focus in lowering its total debt, so that they can obtain a more sustainable financial position. Their figures are still a long way from the numbers presented by the best European construction companies, but on the bright side they are the best performing Portuguese group in this area. ME should also focus in other ways to finance its activity, like the stock market through the increase of free-

³ The lower the ratio, the more the company is burdened by debt expense. When a company's interest coverage ratio is only 1.5 or lower, its ability to meet interest expenses may be questionable. (investopedia)

float. ME has great potential to collect investors money, if their main shareholder (Mota family) is willing to give away some of its equity.

Figure 9: Debt maturity



Source: M&E, 2013 R&C

9- Conclusion

Mota-Engil was able to overcome the economic crisis because of the following reasons:

- They were able to obtain a significant level of internationalization (74%), due to significant presences in the African and American markets, countries with high potential for construction;
- In Portugal they built a diversified portfolio, which they are now attempting to replicate in other parts of the world, by investing in non-construction sectors;
- ME was able to build a strategic plan before the outbreak of the economic crisis, which delineated a clear path and future goals to be achieved.

Another conclusion is that, Mota family's percentage in the company is likely to become further diluted in the future, following the tendency of other European construction companies. Finally, its high indebtedness level is one of the major threats for the future financial health of the company. Reducing it should be one of ME's top priorities.

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