

# Forging Ahead\*

Mergers and acquisitions activity in the global metals industry

## Executive Summary

A record amount of money changed hands in the metals industry last year, with 166 disclosed deals worth a total US\$ 37 billion – more than double the US\$ 16 billion that was traded in 2003. In the first edition of **Forging Ahead\***, PricewaterhouseCoopers has analysed mergers and acquisitions in the global metals industry throughout 2004. It has also looked at the principal trends shaping the industry and likely to stimulate further M&A activity.

### Big sums at stake

The steel sector dominated the scene, with 117 transactions collectively worth \$31.4 billion, including the year's biggest deal: the \$13.3 billion merger of LNM Holdings and Ispat International, and subsequent \$4.5 billion acquisition of International Steel Group, to form Mittal Steel, the world's largest steelmaker (see Figure 1). The rest of the metals industry was relatively quiet, by contrast. Although there were 32 deals in the aluminium sector, the total value of those deals was only \$5.2 billion, compared with \$7.9 billion in 2003. Another 17 deals took place between companies producing tungsten, molybdenum, copper, metal powder, zinc and other base metals, but their aggregate value was less than two-fifths of the sum involved the previous year.

Figure 1:

Deals by Industry Sector

	2004			2003		
	Steel	Aluminium	Other Metals	Steel	Aluminium	Other Metals
<b>Domestic</b>						
Number	67	22	10	76	15	23
Value (US\$ m)	21,475	3,930	249	5,008	1,231	216
<b>Cross-Border</b>						
Number	50	10	7	31	7	12
Value (US\$ m)	9,892	1,245	198	1,925	6,704	946
<b>Total</b>						
Number	117	32	17	107	22	35
Value (US\$ m)	31,367	5,175	447	6,933	7,935	1,162

SOURCES:

Bloomberg, mergermarket and PricewaterhouseCoopers analysis

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### Geographical snapshot

The impetus for deal-making has altered. A few years ago, it was local consolidation of bankrupt steel producers that drove most transactions. Today, it is cross-border expansion. Moreover, many companies are ready to spend much more money much further afield.

In 2004, there were 21 cross-continent deals collectively worth nearly \$7.8 billion in the steel sector, compared with 18 such deals collectively worth just \$1.7 billion the previous year (see Figure 2). The number of cross-continent transactions in the aluminium sector also rose sharply, although their aggregate value was only \$1.2 billion.

**Figure 2:**

Regional versus Cross-Continent M&As

	2004		2003	
	Steel	Aluminium	Steel	Aluminium
<b>Regional</b>				
Number	96	24	89	19
Value (US\$ m)	23,603	3,930	5,212	1,309
<b>Cross-Continent</b>				
Number	21	8	18	3
Value (US\$ m)	7,764	1,245	1,720	6,626

SOURCES:

*Bloomberg, mergermarket and PricewaterhouseCoopers analysis*

The trend towards cross-continental acquisitions reflects the fact that some of the largest steelmakers have turned to the emerging markets of Central and Eastern Europe, Asia Pacific and Latin America. These three regions jointly accounted for 43% of the total number of deals that were struck, and 31% of the total value that was traded, in 2004.

They also featured prominently in the list of top ten transactions. LNM Holdings bought Polskie Huty Stal for \$1.1 billion; three Russian companies were involved in deals worth another \$3.8 billion; two companies based in China and South Korea respectively completed deals worth \$2.9 billion; and Arcelor spent \$1.5 billion increasing its stake in the Brazilian Companhia Siderurgica de Tubarao. But it was the creation of Mittal Steel that played the biggest part in boosting the value of the top ten M&As to \$28.5 billion, compared with just \$12.8 billion in 2003.



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### Drivers of future deal activity

Despite the unprecedented level of activity in the steel sector, the top five steelmakers still have less than 20% of the market – half the share enjoyed by the top five aluminium producers. The steel sector is also much more fragmented than other industries at both ends of the supply chain, including iron ore and automotive manufacturing. Thus the need to consolidate will continue to be a key driver of future deals in the sector.

The current combination of low valuations and high earnings may well prove another stimulant. Although steel stocks have outperformed those in mining, engineering and machinery, chemicals and aerospace and defence over the past two years, they are still valued at a discount relative to their industrial peers. However, many analysts believe that price/earnings ratios in the steel sector will increase in the longer term, and several large steelmakers have substantial cash balances. So they are in a strong position to snap up some bargains.

The aluminium sector has already consolidated to a considerable extent. But higher energy prices may prompt some companies to switch from smelting to remelting, which uses only 5% of the energy required in smelting and relies heavily on natural gas rather than electricity. Any such shift from primary to secondary production techniques could trigger a number of M&As – as could the search for alternative energy sources like hydropower and gas.

Metals companies in developing markets such as Russia and China, which have already seen their consumption of raw materials surge in response to greater demand, could also invest in foreign mining operations to secure supplies of iron ore, coal, copper and alumina. But the increasing importance of Central and Eastern Europe, Latin America and Asia Pacific is likely to be a major draw for the metals industry as a whole – with companies in these regions being both attractive targets and potential buyers.

Full copies of *Forging Ahead\** – *Mergers and acquisitions in the global metals industry* can be downloaded at  
[www.pwc.com/forgingahead](http://www.pwc.com/forgingahead)



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## Executive Summary (continued)

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