

Assemblingvalue

April 2013

First-quarter 2013 global industrial manufacturing industry mergers and acquisitions analysis

To help provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you our quarterly analysis of M&A activity in the global industrial manufacturing industry.



Bobby Bono

The value and volume of mergers and acquisitions in industrial manufacturing slowed during the first quarter of 2013, and deal totals were the slowest of any quarter in the last three years.

PwC analysts are monitoring several additional trends expected to affect the values and locations of deals in the sector:

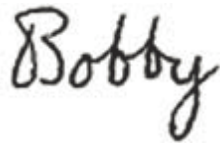
- US-related M&A was weak, although targets involved in energy end-markets remain of great interest because of the sector's relatively favorable growth prospects.
- These deals also contributed to growth in industrial machinery acquisitions, with the trend toward pump-related acquisitions continuing into the first quarter. The main drivers of pump M&A are population growth, urbanization, and industrialization of emerging markets, with the attendant growth in demand for energy, power generation, and water resources. For example, growth in oil and gas production drove the recent GE acquisition of Lufkin, announced in April and to be included in second-quarter totals.
- Financial investment increased significantly, besting the pace of 2012, a trend largely driven by European financial acquirers buying local industrial machinery and rubber and plastic product companies through leveraged buyouts.
- Some were surprised that strategic investment decreased by so much, particularly since the strong performance of many stock markets was expected to better position these acquirers in financing new deals. Why the fall off? There were fewer deals for rubber and plastic product targets by strategic investors, possibly indicating competition from financial investors who favored these targets. However, the culprit is most likely broader macroeconomic concerns, as strategic investors shied away from US and Southern European targets but remained generally active in high-growth regions such as Asia.
- With the decline in overall activity, M&A valuation in 2013 dropped below the longer-term historical norms. In addition, as deal flow receded, acquirers focused less on cross-border deals and more on consolidating their local markets, which may reflect the more cautious environment. In the long term, the trend toward more cross-border deals seems poised to resume.

Industrial manufacturing M&A may increase during the remainder of 2013, in part because a focus on cost-cutting initiatives and organic expansion since the end of the global financial crisis may give way to more acquisitive growth in a continued global recovery.

In addition, there is greater interest in targets that sell to energy industries, a trend that may contribute to some larger deals and also may bolster growth in acquisitions of industrial machinery targets. Macroeconomic issues nevertheless are likely to continue to weigh heavily on acquirers, and are thus likely to restrain IM deal totals for the near term.

Launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/assembling-value.jhtml> for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,

A handwritten signature in black ink that reads "Bobby". The script is fluid and cursive, with the "B" being particularly large and stylized.

Bobby Bono
US Industrial Manufacturing Leader