

# Assemblingvalue

August 2014

## *Second-quarter 2014 global industrial manufacturing industry mergers and acquisitions analysis*



**Bobby Bono**

PwC is pleased to share with you our quarterly analysis of mergers and acquisitions (M&A) activity in the industrial manufacturing sector. Assembling value offers our insights on deals in the sector during the second quarter of 2014.

The value of M&A deals in 2Q14 surged fourfold to \$60.1 billion, and the number of announced transactions of \$50 million or more increased 72% from the prior quarter. Each of these figures is among the highest ever quarterly totals for the industrial manufacturing sector. Eleven mega-deals, or transactions with disclosed value above \$1 billion, were announced during the quarter. Although several were withdrawn, and multiple bids for the same assets are included in the total, the announced activity indicates a growing appetite for consolidation. The total value of mega-deals was \$33 billion, even excluding withdrawn offers. After years of mediocre economic growth, manufacturers are looking to be proactive, seeking strategic assets to improve their portfolios, rather than passively awaiting a more robust global recovery.

PwC analysts are monitoring the following other trends expected to affect the values and locations of deals in the industrial manufacturing sector:

- The second quarter's highlight was the flurry of activity involving the assets of French industrial conglomerate Alstom. The \$17 billion acquisition of Alstom's energy unit, including its gas turbine business, will give General Electric wider access to power plants in emerging Asia and Africa. The interest in Alstom underscores the interest in high-quality assets, particularly those with exposure to long-term "megatrends" such as shifting of economic power to emerging regions and opportunity for growth from development and urbanization in those markets. The deal also highlights the complexity and sensitivity of cross-border acquisitions, as the French government intervened to raise the bidding price and eventually included its own 20% stake in the deal.
- Strategic buyers were heavily active during the quarter, but financial investors also increased their activity and were involved with a number of mega-deals. Private equity investors are under pressure to deploy capital, which is in oversupply amid a prolonged stretch of low interest rates. Managers have been paying higher multiples in industries with stable growth profiles and room for operational improvement. Within industrial manufacturing, target industries have included packaging materials, which are considered to have low downside risk, and flow control, where high-quality engineering and product differentiation can offer premium pricing even in an often commoditized segment.
- Although regional activity remained strong in Asia, cross-border deals continued to decrease in the region. Strong manufacturing survey results in China have alleviated



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some near-term fears in the region, but structural concerns about the real estate market and leverage remain high. As a result, horizontal consolidation in Chinese markets has been evident with a greater focus on controlling costs and eliminating overcapacity.

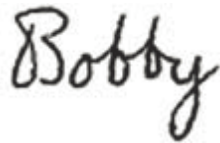
- Eurozone activity has accelerated as companies divest non-core businesses in order to free up capital and improve operating performance. Meanwhile, in the United States, companies with oil and gas exposure remain the most attractive, with as many as 30% of targets involving at least some energy component.

Going forward, industrial manufacturers will continue to carve out non-core businesses and pursue assets within markets where they already have leadership positions and an existing competitive advantage. The challenge for industrial manufacturing companies: aligning portfolios toward faster-growing markets (such as oil and gas) and pursuing high quality assets, without overpaying.

We're pleased to present our second-quarter 2014 analysis as part of our ongoing commitment to providing you with a deeper understanding of M&A trends and prospects in the industry.

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 dark ink that reads "Bobby". The script is fluid and cursive, with the first letter being a large capital 'B'.

**Bobby Bono**  
US Industrial Manufacturing Leader