

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



Bobby Bono

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

For the third quarter, M&A was robust in industrial manufacturing, particularly in terms of value, with six mega deals or announcements with a disclosed value of \$1 billion or more.

The majority of the quarter's deal activity focused on strategics' purchase of industrial machinery companies, deals primarily driven by expansion into complementary, relatively high-growth products. While industrial machinery represents a large segment of the industrial manufacturing sector, it remains fragmented in certain markets; consequently, machinery is likely to continue to lead deal totals in the sector.

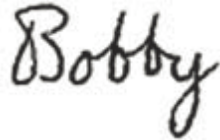
PwC analysts are monitoring several additional trends expected to affect the values and locations of deals in the sector:

- Strategic investors accounted for the majority of industrial manufacturing deals, but financial investment has also been relatively strong in 2013. These deals have targeted a variety of businesses, although many of the transactions were private equity exits to other private equity firms, involved targets in Europe, and/or involved construction as a major end-market. We believe that the financials' exits will likely continue as private equity firms realize opportunities to monetize industrial manufacturing investments acquired prior to the financial crisis. These opportunities have been broadened by relative strength in IPO and equity markets, as well as interest from other investors.
- Financial investors are also paying more for their deals, a factor contributing to relatively high multiples across the sector, compared with historical norms. Higher valuations have also been driven by an increase in deals for controlling stakes, which typically involve some premium. Additionally, higher deal valuations have resulted from relatively strong equity market performance in developed countries.
- Deals involving China continue to be robust. So far, industrial manufacturing deals in China have primarily focused on local market consolidation of machinery companies. These deals are driven by the Chinese national government's continuing encouragement of domestic acquisitions in order to improve industry competitiveness.
- Sector M&A has been helped by the fact that manufacturing acquirers are able and willing to use their own cash, as well as raise new debt, in order to fund large acquisitions.

Looking ahead, we expect China and the United States to remain fertile ground for new deals, with strategic acquirers finding new opportunities in PE exits and industrial machinery. However, it is also possible that uncertainty driven by economic concerns in the United States could cause some acquirers to be more hesitant to close new deals through the end of the year.

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 cursive and fluid, with the letters connected.

Bobby Bono
US Industrial Manufacturing Leader