

Third-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 third quarter of 2014.

Following an unusually strong second quarter, M&A activity remained robust in the third quarter, with 55 announced transactions of \$50 million or more. The number of transactions was 13% lower than in the prior quarter but almost 30% higher than in the same quarter last year. Five mega deals, or transactions with disclosed value topping \$1 billion, were announced during the quarter as large manufacturers continue to reevaluate their portfolio positioning. Smaller, local deals increased, particularly in Asia, as CEOs face concerns over structural growth in the region.

Oil-, gas-, and petrochemical-related companies again dominated industrial manufacturing activity. Energy-related deals accounted for a quarter of total deal volume year to date and as much as 40 percent of US-related transactions.

Several other, smaller deals occurred in the valve, pumps, and compression businesses. Drillers are pushing for newer technology and broader capabilities to achieve greater yields on their shale and related investments.

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

- *Tightening the core* – Divestiture of noncore businesses is recurring across the industrial products sector. Spin-offs, carve-outs, and other related arrangements can free up capital and favorably affect both financials and operations.
- *Revising the portfolio* – Mixed global economic results and an uncertain outlook are expected to continue to drive portfolio reshuffling, merging of horizontal and complementary businesses, and divestiture activity.
- *Counting on quality* – Strategic buyers continue to lead transactions, but financial buyers have gained exposure to a variety of manufacturing end markets, with the common theme being a desire to gain high-quality engineering and production differentiation. Private equity managers have been paying higher multiples in industries with stable growth profiles and room for operation improvement. During 3Q14, investors targeted a wide range of industries including printing parts and machinery, ship engines, power plant generating sets, and agricultural machinery.
- *Keeping busy in China* – Inbound acquisition activities remain muted in China due to concerns about economic growth. However, Chinese companies weren't deterred

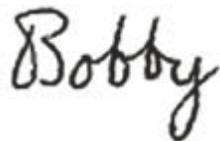
from acquiring domestic firms. In fact, more China-involved deals have occurred in 2014 than in any of the last 10 years. The government's efforts to secure food safety to meet increasing demands should lead to secular growth in the agribusiness industry. The deals in China have been motivated by both horizontal consolidation, with a greater focus on controlling costs and eliminating overcapacity, and product diversification to balance risks in a slowdown.

Going forward, industrial manufacturers are expected to continue to carve out noncore businesses and pursue assets within markets where they already have leadership positions and competitive advantages. The challenge for IM 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 third-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 black ink that reads "Bobby". The script is cursive and fluid, with the "B" being particularly large and stylized.

Bobby Bono
US Industrial Manufacturing Leader