Assembling value

Fourth-quarter 2013 industrial manufacturing industry mergers and acquisitions analysis

Highlights

Visit our industrial manufacturing industry website at www.pwc.com/us/industrialproducts

To our industrial manufacturing readers

Bobby Bono
US Industrial Manufacturing Leader

Bobby

To 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 sector. In this report, you'll find an overview of M&A in the industry during the fourth quarter of 2013 as well as our expectations for deal activity in the near future.

Industrial manufacturing closed a challenging year on a weak note, with total 4Q13 deal value of $9.7 billion, matching a three-year quarterly low. Transaction activity, as measured by both value and volume, declined for a second straight year. Average deal size fell in both the fourth quarter and full year.

Caution was the byword in 2013. M&A activity was driven by horizontal consolidation and divestitures of non-core business.

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

- Industrial machinery, one of the more fragmented parts of the sector, again led M&A activity. Growth-oriented expansion activity was limited in 2013 and largely tied to oil and gas markets segments. The year's largest deal, Applied Materials' $9.3 billion acquisition of Tokyo Electron, was driven by a defensive need for consolidation among equipment makers, with the added goal of achieving greater pricing power.
- Financial investors remained active with the number of leveraged buyouts almost doubling from the prior year. In addition, private equity firms used the strong equity markets to exit investments, some of which were made prior to the downturn.
- Economic uncertainty in developed markets continued to hinder industrial manufacturing industry growth as well as transaction activity. For example, our analysis indicates that there is a strong, positive correlation between industrial production and IM M&A, particularly in the United States.

Looking toward 2014, Purchasing Managers Index (PMI) survey numbers in the Eurozone accelerated in recent months, while Asian manufacturing continued to expand, even as longer-term expectations continue to be moderated.

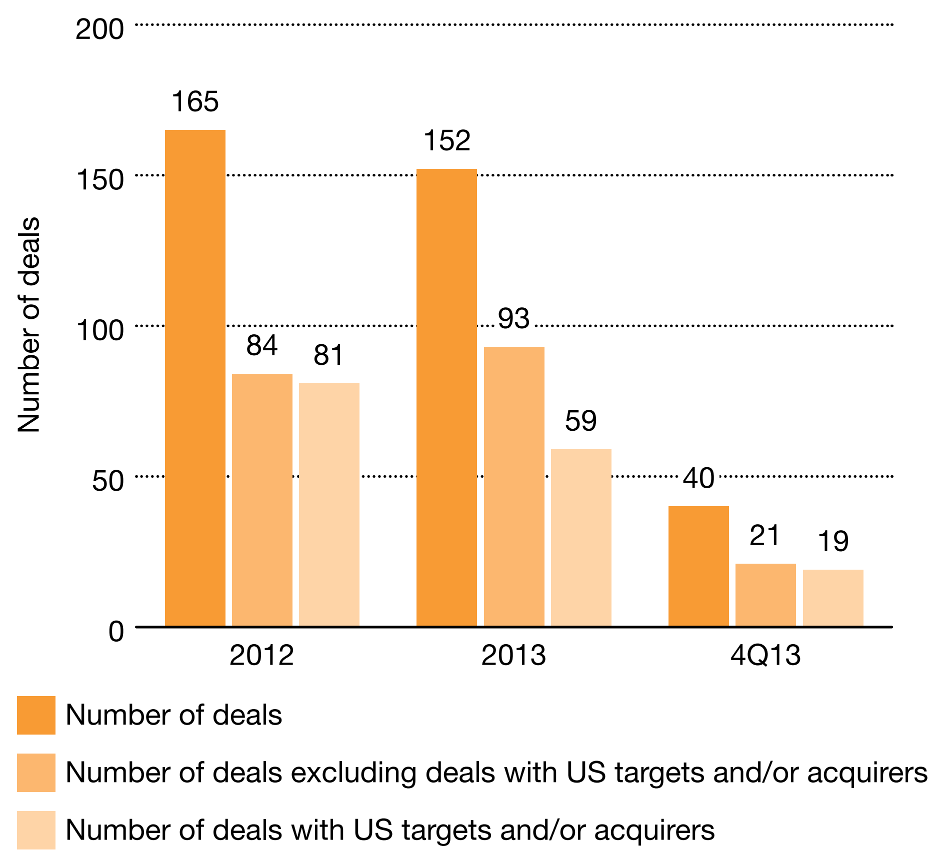
Stabilization—if not improvement—in employment markets, recovering housing start activity, and the volume of auto sales are among several factors pointing to a brighter outlook for manufacturing in 2014. There is reason to be cautiously optimistic for industrial manufacturing deal activity in the coming quarters, but acquirers are likely to remain risk-averse and keep their focus on small, local targets with easier-to-achieve synergies.

We're pleased to present our fourth-quarter 2013 analysis as part of our ongoing commitment to providing you with a deeper understanding of M&A trends and prospects in the industry.

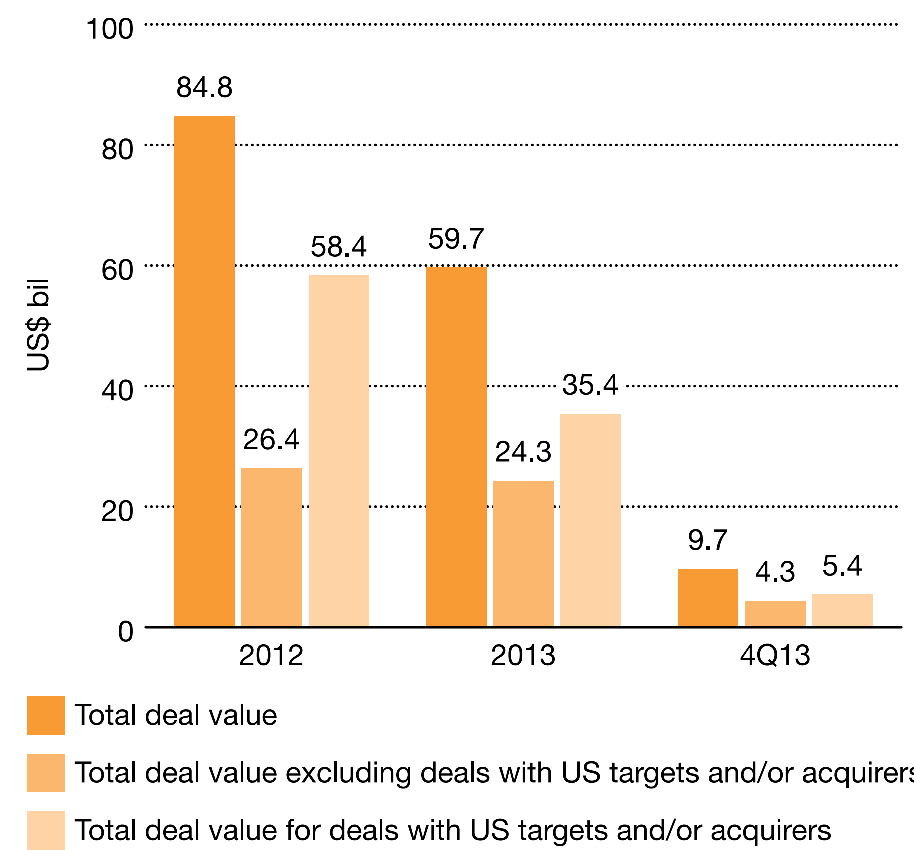
Launch the data explorer at http://www.pwc.com/us/en/industrial-products/publications/assembling-value.jhtml for a deeper dive into the data, or contact us to further discuss our insights.

Deal activity

Deal activity by number of deals
Measured by number of deals worth $50 million or more



Deal activity by total deal value
Measured by value of deals worth $50 million or more

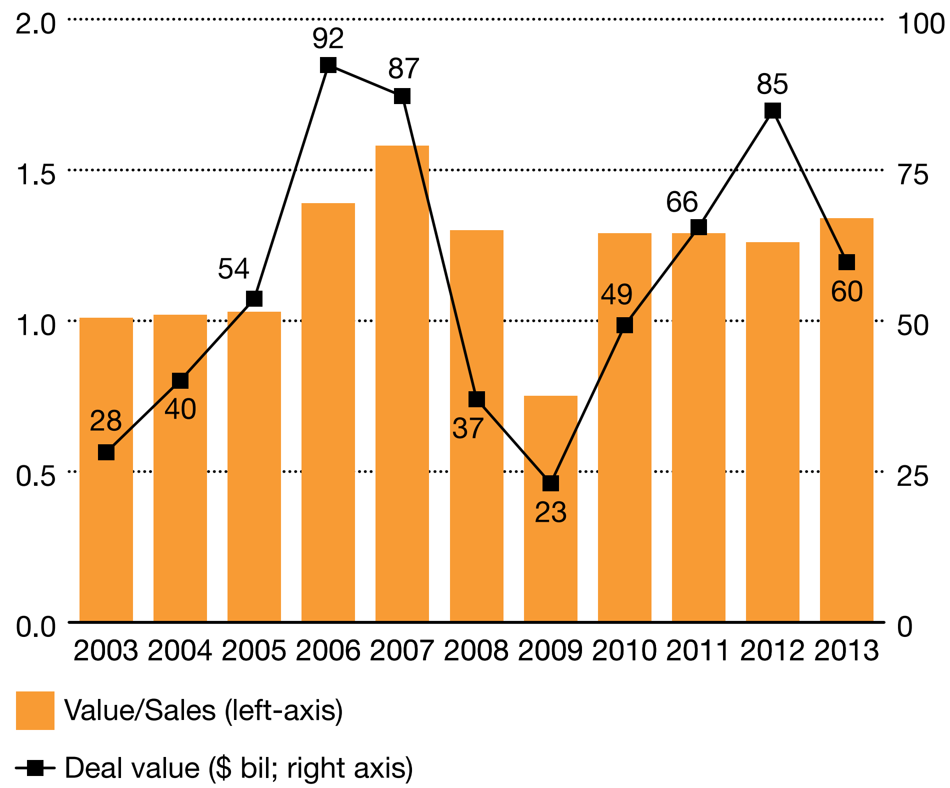


Industrial manufacturing M&A ended the year on a weak note, with deal values matching a three-year low. While deal volume did show a moderate improvement during the quarter, annual volume declined in 2013 for the second year in a row. The smaller deal sizes reflect a more cautious approach to deal-making on the part of manufacturing companies.

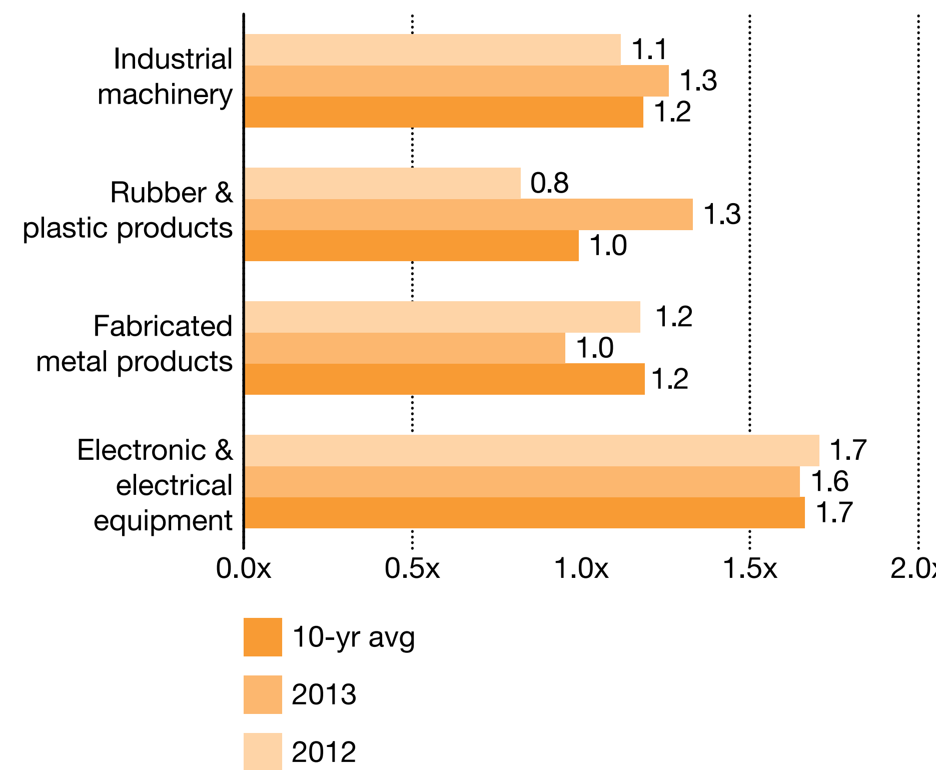
Industrial machinery led all categories of M&A targets in terms of volume and value during 2013, a factor which we attribute to the relative fragmentation of this segment. We also note that targets with involvement in energy-related end markets remain of high interest and accounted for almost one-fifth of transactions in 2013.

Deal market characteristics

Deal valuation by median value/sales
Measured by value/sales for deals worth $50 million or more

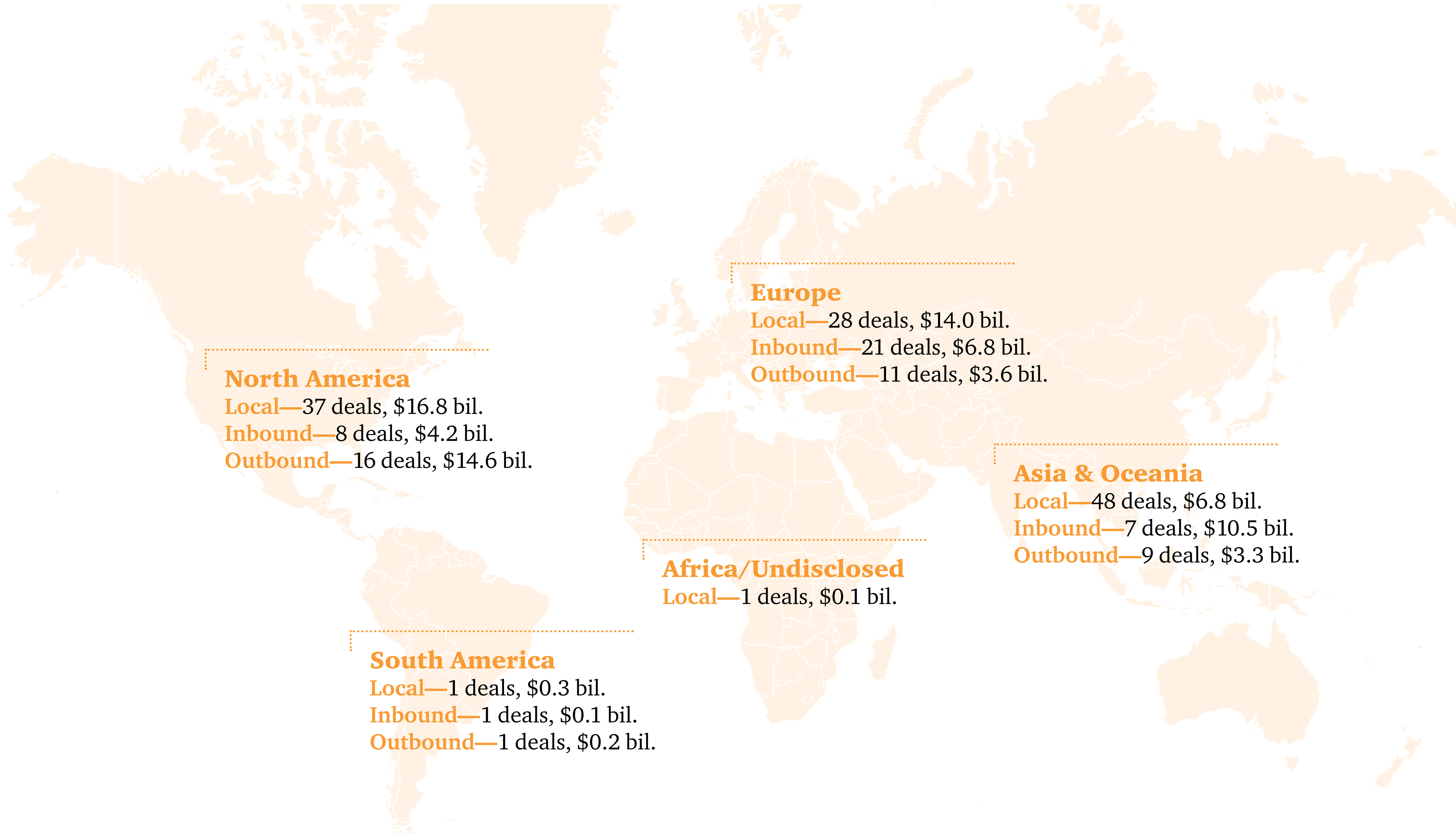


Deal valuation by median value/sales
Measured by valuation for deals worth $50 million or more



Acquirers generally paid a premium valuation, as measured by sales multiples, in 2013 when compared to historical norms for industrial manufacturing targets. When considered alongside the trend toward smaller deals, we conclude that there is a high level of interest in acquiring select manufacturing businesses but less interest in larger, more transformative deals. In addition, we note that the general run-up in equity markets since the end of the global recession has strengthened the hand of strategic acquirers and is allowing them to pay higher valuations for desired assets.

Global industrial manufacturing deals in 2013
Measured by number and value of deals worth $50 million or more



Asia took the lead in regional deal activity from North America, which led on both a volume and value basis in 2012. The majority of transactions in the industrial manufacturing sector were local deals, particularly within Asia, which accounted for 40 percent of total deal volume in the fourth quarter of 2013. In fact, only 38 percent of total deals were cross-border, the second-lowest level since 2005 (next to the highly depressed 2009). We expect selectivity regarding cross-border deals to continue in the near term as manufacturers establish new baseline growth rates in Asia and assess long term implications of changing labor and energy costs on investment decisions.

Large deals

Mega-deals in 2013
deals with a disclosed value of at least $1 billion

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil.	Category
Sep	Tokyo Electron Ltd	Japan	Applied Materials Inc	United States	Pending	9.31	Industrial Machinery
Jul	Invensys PLC	United Kingdom	Schneider Electric SA	France	Pending	5.01	Industrial Machinery
Mar	Gardner Denver Inc	United States	KKR & Co LP	United Statesk	Completed	3.75	Industrial Machinery
Apr	Lufkin Industries Inc	United States	General Electric Co{GE}	United States	Completed	3.07	Industrial Machinery
May	IMC International Metalworking Companies BV	Netherlands	Berkshire Hathaway Inc	United States	Completed	2.05	Industrial Machinery
Aug	Edwards Group Ltd	United Kingdom	Atlas Copco AB	Sweden	Pending	1.60	Industrial Machinery
Jan	WMS Industries Inc	United States	Scientific Games Corp	United States	Completed	1.50	Miscellaneous IM & Other
Mar	Metso Oyj-Pulp, Paper & Power Business	Finland	Shareholders	Finland	Completed	1.36	Industrial Machinery
May	Allflex Europe SAS	France	BC Partners Ltd	United Kingdom	Completed	1.35	Miscellaneous IM & Other
Jul	SHFL entertainment Inc	United States	Bally Technologies Inc	United States	Completed	1.34	Miscellaneous IM & Other
Sep	Kaydon Corp	United States	AB SKF	Sweden	Part Comp	1.24	Industrial Machinery
Oct	IMI PLC-Retail Dispensing Business	United Kingdom	Marmon Group LLC	United States	Completed	1.10	Industrial Machinery
Oct	Ansaldo Energia SpA	Italy	Fondo Strategico Italiano SpA	Italy	Completed	1.07	Electronic & Electrical Equipment

The industrial manufacturing sector had 13 mega-deals (defined as $1 billion value or greater) for the year, including two in the fourth quarter. The Marmon Group (a Berkshire Hathaway company) acquired the retail, beverage distribution business from UK-based IMI for $1.10 billion. The business was carved out so the global engineering firm could focus on its industrials business which specializes in fluid power technology as well as energy efficiency and automation systems. Similarly, the other major deal in the quarter was motivated by a strategic decision to focus on core capabilities. Italian aerospace and defense company Finmeccanica, along with its private equity partner, announced the $1.07 million sale of Ansaldo Energia, an integrated engineering and manufacturing company in the power sector, to a state government fund which also had the added benefit of reducing debt and solidifying its balance sheet.

The largest deal of 2013, Applied Materials' $9.3 billion acquisition of Tokyo Electron, was driven by concentration of power in the manufacturing of semiconductors given the rapid increase in production costs. Manufacturers, under margin pressure, are consolidating or outsourcing so fewer buyers remain that manufacture their own semiconductors. The new entity should have pricing power to support new semiconductors as they turn over their line of equipment to higher margin products.

Methodology

Assembling value is an analysis of deals in the global industrial manufacturing industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have primary SIC codes that fall into one of the following SIC industry groups: millwork, plywood, and structure; wood buildings and mobile homes; partitions, shelving, and lockers; gaskets, packing, and sealing devices; fabricated rubber products; miscellaneous plastics products; heating equipment, except electric air; fabricated structural metal products; bolts, nuts, screws, and other machine products; metals forgings and stampings; coating, engraving, and allied services; miscellaneous fabricated metal products; engines and turbines; farm and garden machinery; metalworking machinery; special industry machinery; general industrial machinery; refrigeration and service industry machinery; miscellaneous industrial and commercial machinery; electric transmission and distribution equipment; electrical industrial apparatus; electrical lighting and wiring equipment; miscellaneous electrical machinery and equipment; and miscellaneous manufacturing industries. Balance sheet data was sourced from public company reports.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between January 1, 2012, and December 31, 2013, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the buyer have been met but deal has not been completed), or withdrawn.

Regional categories used in this report approximate United Nations (UN) Regional Groups, as determined by the UN Statistics Division, with the exception of the North America region (includes Northern America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups) and Europe (divided into UK and Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong. The term deal, when referenced herein, refers to deals with a disclosed value of at least $50 million unless otherwise noted.

Resources

PwC Industrial Manufacturing practice

Our Industrial Manufacturing practice, strategically located in more than 30 countries around the world, comprises a global network of industry professionals serving manufacturing clients. We bring experience, international industry best practices, and a wealth of specialized resources to help solve business issues.

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