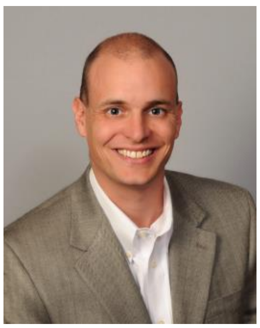
# Assembling value

May 2015

# First-quarter 2015 global industrial manufacturing industry mergers and acquisitions analysis



Bobby Bono

Welcome to *Assembling value,* our quarterly analysis of mergers and acquisitions in the global industrial manufacturing sector. In this summary, you'll find an overview of mergers and acquisitions in the sector during the first quarter of 2015.

### *Overview*

Global M&A activity got off to a strong start in 1Q15, though both volume and value fell well short of the near record transaction volume and value recorded in 2014. The number of transactions of $50 million or above edged down to 48, nearly 15% below the prior quarter, but exceeding the first quarter of 2014 by almost 30%. With $19.9 billion in announced deals, 1Q15 was the strongest first quarter in four years despite a notable pause in US deal generation. There were few headline grabbing megadeals in the quarter, but five transactions of a billion dollars or greater were announced.

### *Regional activity*

Overall, the US economy has been steady with record levels of optimism about the domestic outlook, according to PwC's quarterly *Manufacturing Barometer* survey. However, poor-to-mild economic activity (as measured by regional manufacturing PMI surveys) across China, Japan, and select areas of Europe has weighed heavily on global activity. Going forward, low oil prices and expansionary monetary policies should support modest global expansion as the strong dollar provides much needed stimulus for non-US exporters. Pockets of activity tied directly to energy related projects are in danger of defunding but these headwinds should be largely offset by stimulatory effects of cheaper oil.

With that backdrop, volatility in commodity and currency prices has clearly hampered US transaction activity, obscuring the growth outlook and appropriate pricing levels. US share of global activity dropped to among its lowest levels in a decade as the share of deals involving energy related entities plummeted to 6.3% (versus 24.4% in 2014). Cross-border deals dropped to 25% of the global total, the lowest share in at least ten years. However, the strong dollar could drive US outbound deals in the coming months (since foreign targets have become cheaper in US currency).

### *Segmentation activity*

Consolidation among smaller, niche companies, particularly among Asian firms, remained the dominant theme. Emerging markets accounted for almost 60% of deals, well above their typical share, and almost all of these deals involved China. As we have noted in prior reports, heavy transaction activity in China has been driven partially by the need to eliminate excess capacity in the region as the baseline growth rates slows. Another major factor has been restructuring initiatives that are underway in the region as Chinese state-owned entities are in the process of privatizing. The private bidders have included both strategic investors and a highly active cohort of private equity investors (often foreign investors in joint bids with local, private entities).

The larger deals in the quarter were notable for their variety by geography, type of investor, and strategic intent, as opposed to their raw size. Some of the larger deals were motivated by the desire to gain scale, operate efficiently, and drive profitability, particularly in regions plagued by overcapacity. Portfolio expansion was the motivation for other deals, with a focus on customer base expansion and the desire to meet emerging customer needs. Several manufacturers shed non-core operations to focus on their primary businesses and to free up capital.

PwC analysts are monitoring several additional trends expected to affect the value and volume of deals in the global industrial manufacturing sector:

- **High-quality manufacturing business.** Strategic as well as financial investors continue to pursue high quality industrial assets and are more willing to acquire companies with stable growth prospects, even at a higher valuation.
- **Shedding non-core businesses.** Restructuring of businesses by aligning business portfolios to high-growth areas in areas of core competencies. Companies are redeploying free capital in core activities to improve shareholders' return.
- **Financial buyers.** With plenty of cash at their disposal, investor groups have been highly active in deals involving diverse end markets such as packaging, metal components, turbines, and specialty transformers. Activity is particularly heavy in Asia and areas of Europe on the verge of a recovery.
- **Expansion of global customer base.** Manufacturers are motivated to expand their portfolio with complementary products acquisitions, as demand increases for holistic products and service line offerings.
- **Next wave technology.** Investing in advances in automation, efficiency, and machine communication as well as next generation robotics and nanotechnology or acquiring niche expertise in these areas.

***Outlook***

We remain optimistic that deal activity in the industrial manufacturing sector will likely continue at a brisk pace. The biggest challenge for potential buyers is calibrating the long-term growth themes (emerging markets and resource scarcity megatrends) with near-term volatility. Companies are reevaluating growth opportunities in major markets as they digest both the direct and indirect economic implications of the rapid deterioration in oil prices and consider the potential impact of the first round of regulatory tightening on US economic activity.

We're pleased to present our first-quarter 2015 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,

Bobby

**Bobby Bono**
US Industrial Manufacturing Leader