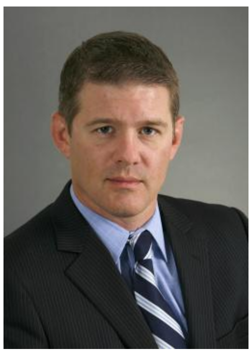
*Forging*ahead

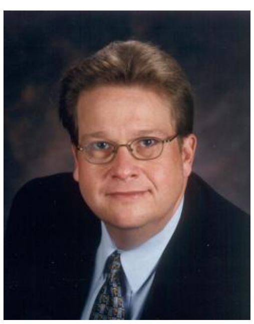
April 2013

First-quarter 2013 global metals industry mergers and acquisitions analysis

To help 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 metals industry.



Sean Hoover



Jim Forbes

Deal activity in the metals sector declined dramatically during the first quarter of 2013, with total volume of transactions at its lowest since the first quarter of 2009, and total deal value just above that of the first quarter of 2010.

Economic uncertainty in advanced economies, as well as sequestration concerns in the United States, with the federal government likely to reduce the budget for non-defense agencies by about $85 billion between March 1 and September 30, helped drive the decrease in activity. Additionally, the eurozone's economic output decreased more than had been expected in the last quarter of 2012. On the other hand, Japan, a major steel producer, experienced better growth than was expected in the fourth quarter of 2012, and economies in South Korea and Australia continued to grow.

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

- Some developing nations appear to be on the rebound: China's GDP increased more than was expected in the fourth quarter of 2012, and the country's Purchasing Managers' Index (PMI) improved in March, compared with the previous month. Both metrics suggest increased demand for metals products. Also, in India, the prospect for growth remains strong, with the country's government forecasting that it will return to much stronger economic activity by 2014. With these countries increasing construction spending, and a growing middle class increasing its spending on automobiles and durable household goods, both key end-user markets in the metals sector, the metals sector is likely to experience positive future growth.

- The proportion of M&A activity driven by financial investors increased dramatically, as demonstrated by the $1.15 billion acquisition of Sweden-based Hoganas by its largest shareholder, Lindengruppen. Additionally, a consortium including private equity firm EQ Partners and other investors offered $1.11 billion for mines in Canada currently owned by ArcelorMittal Mines. These two deals, valued at more than $2.25 billion, accounted for more than one-third of the first quarter's deal volume.

- Overcapacity remains a concern for the steel market — not only finished steel products, but also iron ore. With a large amount of iron ore expected to come on line in 2013, many analysts believe that as much as a 10% increase in demand will be required to absorb the increased supply, particularly in light of lackluster demand forecasts expected in the United States and Europe.

- Steel prices throughout the rest of 2013 are expected to remain flat, negatively affecting returns on steel capital investments.

Given the existing issues of concern, metals M&A is not expected to grow in the near future. However, US plans for investing billions of dollars in infrastructure may increase demand for steel and iron and, to a lesser extent, aluminum in the United States. Also, given the increased growth in the economies of Japan, South Korea, and Australia — all major metals-producing countries — combined with improving demand in several emerging economies, long-term improvement may occur in these countries. However, significant M&A growth is not expected soon in the sector.

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