

First-quarter 2014 global metals industry mergers and acquisitions analysis



Sean Hoover



Jim Forbes

PwC is pleased to share with you our quarterly analysis of mergers and acquisitions (M&A) activity in the global metals sector. *Forging ahead* offers our insights on deals in the sector during the first quarter of 2014, as well as our expectations for M&A in the coming year.

The metals deal environment declined significantly in the first quarter, falling to its lowest level since at least 2008. The volume and value of transactions decreased, driving average deal value to its lowest level since the second quarter of 2008. While overall value declined, one mega-deal was announced: China-based Minmetals Development Company agreed to acquire Minmetals Hanxing Mining Industry Company Ltd, a Handan-based wholesaler of iron ore. The deal, valued at nearly \$1.8 billion, accounted for more than half of the first quarter's total deal value for deals valued at \$50 million or more.

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

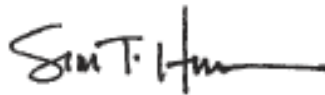
- Surprisingly, in light of recent trends, activity in the steel segment underperformed all other segments (including aluminum and iron ore), accounting for only approximately 9.3 percent of the first quarter's deal value. In contrast, steel segment deals in 2013 accounted for almost 45 percent of the year's value. This decline in activity may be due to continued demand headwinds, as the steel industry continues to be challenged by pricing and overcapacity issues.
- Asia and Asia-Pacific led deal volume and value for the third quarter, driving half of the first quarter's deal volume and two-thirds of deal value. China was involved in four deals valued at almost \$2.2 billion, approximately 82 percent of the region's deal value. Europe was the second-most active region, with five deals valued at \$842 million, followed by North America, with three deals valued at \$327 million. This underperformance in the deal environment is likely the result of low commodity prices, which may hamper companies' exploration for sources of inorganic growth.
- Overcapacity remains a concern, particularly in the steel segment, largely owing to China's rapid expansion. The Chinese government has worked to reduce production, limiting investment in new steel plants and imposing power and water tariff penalties on outdated plants. But the need to obtain low-cost materials may trump these efforts as a growing middle class increases the demand for housing, automobiles, and improved infrastructure. At the same time, low demand is keeping steel prices flat as economic growth remains stagnant in the Eurozone and decelerates in many emerging economies.

Despite the first-quarter decline, however, there is cause for optimism regarding deals in the metals sector. As advanced economies, in regions including the Eurozone, begin to see GDP improve or continue to accelerate (as in the United States), demand for metals products is expected to grow. At the same time, despite declining GDP in China, that country is still one of the fastest-growing nations in the world, and a renewed focus on the provision of consumer goods by its government may increase demand there as well. It remains to be seen whether 2014 will be a boom or a bust in the mergers and acquisitions environment.

We're pleased to present our first-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/forging-ahead.jhtml> for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Hoover".

Sean Hoover
US Metals Leader

A handwritten signature in black ink, appearing to read "Jim Forbes".

Jim Forbes
Global Metals Leader