

Third-quarter 2013 global metals industry mergers and acquisitions analysis



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To help provide further insight 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 sector.

Metals deals rebounded in the third quarter, with strong growth in both volume and value. During the quarter, activity for deals valued at \$50 million and above reached a peak for the year, and average deal value increased, driven by larger deals, including a nearly \$1.3 billion mega-deal. However, with some advanced economies dampened by sluggish growth, value and volume for the first three quarters lagged behind the same period in 2012.

Acquirers from advanced economies drove half of third-quarter activity; in the second quarter, these regions were responsible for less than 39 percent of deal volume. This increase occurred despite economic woes in much of the Eurozone; the region's second-quarter GDP grew by 0.3 percent, technically lifting the majority of its member-nations out of recession, but concerns regarding sustainable growth remain.

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

- Asia and Oceania led deal volume and value for the third quarter, with M&A activity driven by China, which was responsible for 12 of the region's 15 deals. Nine of those deals were local-market, owing in part to the government's most recent Five Year Plan, which focuses on industrial consolidation. The three largest deals globally in the third quarter were China-based local deals.
- North America was second in deal volume and value, with four deals, all US-based local deals. Europe had one outbound deal valued at \$80 million.
- Overcapacity remains a concern for aluminum producers, a problem stemming largely from China's rapid expansion. While the Chinese government has worked to reduce production, the need to obtain low-cost materials may trump these efforts, as a growing middle class increases demand for housing, automobiles, and improved infrastructure. In the country's northwest, new smelter capacity continues to expand, driven by access to low-cost coal. Excess capacity creates pricing challenges: benchmark prices rose approximately 2.2 percent in the third quarter, but they are still well below their July 2008 peak.
- Oversupply is a concern in the steel segment, particularly in Europe. Despite economic issues in the region, steel demand is expected to continue to increase on a global basis, driven by increased activity in China, India, and Central and South America. Globally, steel prices are expected to remain steady.

Despite growth in deal value and volume this quarter, concerns remain. For example, economic challenges in the Eurozone and budget woes in the United States are affecting metals producers' top lines and could cause further declines in M&A activity. If current trends continue, deal activity could be at its weakest level since 2004.

However, global GDP is expected to grow by more than 3 percent in 2014, its strongest showing since 2010, according to the International Monetary Fund. Eurozone and United States GDP are expected to increase as well. If economic activity improves as expected, the deal environment could begin to improve in 2014.

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,



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