

## Third-quarter 2014 metals industry mergers and acquisitions analysis



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Welcome to *Forging ahead*, our quarterly analysis of mergers and acquisitions (M&A) in the global metals sector.

The third quarter brought significant declines in value and volume in the metals sector, as the deal environment cooled. Average deal value also declined, driven by a predominance of middle market deals (those valued at \$50 million to \$250 million). The decrease in average deal value comes despite three mega-deals (deals valued at \$1 billion or more) in the quarter. These three deals, with a combined value of almost \$4 billion, were responsible for just under 52% of all deals valued at \$50 million or more.

PwC analysts are monitoring several other trends expected to affect the value and location of deals in the metals sector, including:

- On a segment basis, deals involving steel makers remained strong, accounting for more than one-fourth of the third quarter's activity. As noted above, the quarter's largest deal involved steel makers. The proportion of deals involving emerging and developing nations continued to grow, driven by strong activity in China. Finally, activity by strategic investors continued to increase as companies sought acquisitions to achieve economies of scale and access to raw materials and new technologies.
- Steel production continues to decline globally despite an increase in demand from end-use markets, such as the automotive, construction, and energy industries. At the same time, steel pricing remains weak; further declines in prices are expected as demand growth flattens. Also, steel production overcapacity is occurring in China, and a lack of domestic demand for steel is driving an increase in exports to other regions. One bright spot is the decrease in iron ore prices, which could lower production costs for steel makers. The outlook for aluminum is more positive as demand is improving, signaling that the glut in capacity may soon end. This is driven in part by the increased use of light-weight alloys in automobiles and aircraft.
- On a regional basis, Asia and Oceania led volume and value with 80 percent of deal volume and almost 58 percent of deal value. A significant proportion of this activity involved China-based companies. Consolidation of Chinese metals producers led to 11 deals valued at \$2.1 billion. This is not surprising, given the Chinese government's continued work to consolidate its heavy industry and improve productivity. North America was also represented, with three deals valued at \$3.1 billion. Last, there was one European deal valued at \$138 million.

While the third quarter of 2014 brought significant declines in activity, we remain cautiously optimistic that the environment will improve. Strong growth in the United States' GDP (4.6 percent in the second quarter) combined with improvements in key end-use sectors, such as automotive and construction, should drive increased demand, leading to a need for increased capacity. Also, although growth has slowed, the economies of China and India continue to expand, driving increased need for metals, particularly steel and aluminum.

We're pleased to present our third-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,



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