

Manufacturing Barometer™

Manufacturers rank people top among M&A challenges

In this special issue, PricewaterhouseCoopers asked our panel of industrial manufacturers what factors contribute to a successful deal and what their plans are for M&A (mergers and acquisitions) through 2007. For M&A, senior executives say their ability to address people issues and the integration work after the deal are the two most important factors for success. Eighty-four percent of respondents ranked people issues as extremely or very important, while integration was seen as a top priority by 80 percent of those surveyed. This implies that companies view post-merger organizational, employment and communication issues as a priority to be addressed throughout the transition.

Pre-merger activities are also an important challenge. Seventy-four percent of respondents ranked financial due diligence as the third most important factor, followed closely by getting sound strategic advice during the M&A screening process (72 percent).

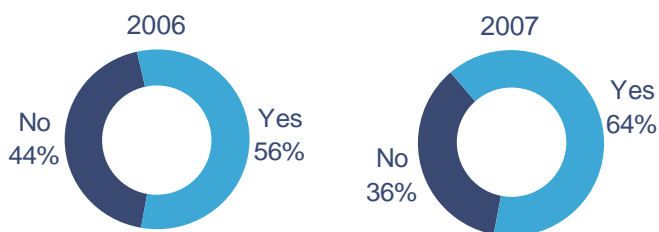
In a marked change from previous surveys, senior executives ranked Sarbanes-Oxley compliance at newly acquired entities as a lower concern. Sixty-six percent of respondents listed it as only somewhat important or not important, while 21 percent ranked it as extremely or very important. The results indicate companies are more comfortable with the regulation and less concerned about entity-level controls.

Other areas considered less important are the structuring of working capital adjustments and preparing for a divestiture, as noted by 44 percent of respondents. Addressing accounting and SEC issues that arise during a transaction was cited by 38 percent. Depending on how the current credit market story unfolds, and as most of the country begins to prepare for seasonal energy needs, managing working capital adjustments may rise closer to the top of the priority list in the months to come and change the picture we see in the data today.

Chart 1. Of the following challenges, which are most important for a successful M&A deal in the US?



Chart 2. Did your company participate in any M&A or other types of transactions (divestitures, alliances or joint ventures) in 2006? Do you plan to by the end of 2007?



Fifty-six percent of manufacturers reported involvement in M&A activity and related transactions during 2006 (e.g., joint ventures, alliances). Although the credit market is different today than it was at the time of the interviews, 64 percent expected to participate in similar or related activity by the end of 2007.

Responses also showed a growing interest in foreign markets. Twenty-six percent of respondents reported plans for M&A in Asia and 13 percent in Latin America — both sizeable jumps from 2006. Plans for deals in Europe show little change from 2006, with only a 2 point increase to 15 percent.

About the research

The Manufacturing Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from www.barometersurveys.com.

Results by email

To receive our survey results by email, visit: www.barometersurveys.com/mail

Industry contacts

Barry Misthal
US Industrial Manufacturing Leader
+1 267 330 2146

Jim Clayman
Sector Analyst
+1 636 405 1672

Chart 3. What types of transactions did you complete in 2006? What types do you expect by the end of 2007?

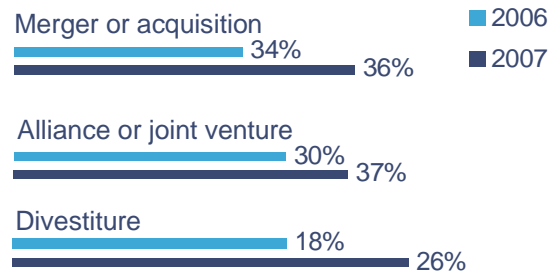
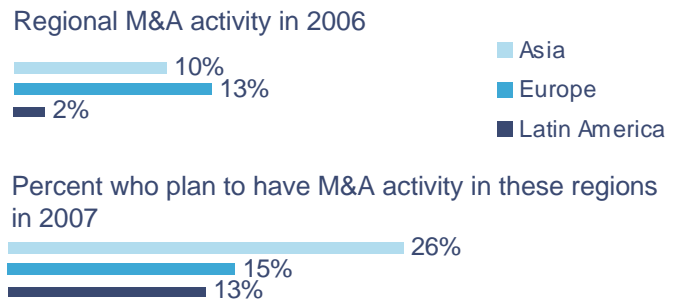


Chart 4. Did you complete M&A transactions in Asia, Europe, or Latin America in 2006? Are you planning M&A activity in these regions for 2007?



Demographics

Who	Sixty-one senior executives of large US-based industrial manufacturing organizations
Interview dates	May 5, 2007 to July 12, 2007
	Industrial manufacturers (n = 61)
Average number of employees	5,763
Average business unit revenues	\$2.99 billion
Average enterprise revenues	\$7.45 billion
Market capitalization	\$10.61 billion
Industry sectors	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---

Methodology

The PricewaterhouseCoopers' Manufacturing Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. The survey panel consists of senior executives from a geographically balanced sample of large industrial manufacturing organizations in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director or related. Among the organizations, 80 percent are publicly held.

PricewaterhouseCoopers has exercised reasonable professional care and diligence in the collection, processing, and reporting of this information. However, the data used is from third-party sources and PricewaterhouseCoopers has not independently verified, validated, or audited the data. PricewaterhouseCoopers makes no representations or warranties with respect to the accuracy of the information, nor whether it is suitable for the purposes to which it is put by users. PricewaterhouseCoopers shall not be liable to any user of this report or to any other person or entity for any inaccuracy of this information or any errors or omissions in its content, regardless of the cause of such inaccuracy, error or omission. Furthermore, in no event shall PricewaterhouseCoopers be liable for consequential, incidental or punitive damages to any person or entity for any matter relating to this information.

© October 2007, PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to the PricewaterhouseCoopers LLP (a Delaware limited liability partnership) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity. MC-NY-07-1162-A.