Assembling value

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First-quarter 2014 global industrial manufacturing industry mergers and acquisitions analysis

Bobby Bono

PwC is pleased to share with you our quarterly analysis of mergers and acquisitions (M&A) activity in the industrial manufacturing sector. *Assembling value* 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.

Sector M&A in the first quarter was robust, in terms of deal value, as four mega deals (transactions with disclosed value above $1 billion) were announced. However, the number of transactions decreased slightly compared with the prior three quarters. As a result, average deal size was slightly higher than the previous year.

The economic backdrop remains highly uncertain. Manufacturing continues to expand in most regions, but the pace has been uneven. Manufacturing surveys in China point to contraction in the private sector during the first quarter. However, the cyclical recovery in developed markets is expected to accelerate during the second half of 2014.

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

- Horizontal consolidation and divestitures of non-core businesses continue to drive transaction activity. Acquirers remain risk-averse and are focused on local targets with easier to achieve synergies. Globally, only a third of all deals in the quarter were cross-border, and all emerging market acquisitions valued at $50 million or greater were local deals.

- Divestitures of non-core businesses are continuing; they can have a positive impact on financials as well as operations. For example, Illinois Tool Works (ITW) has agreed to sell its industrial packaging unit to the Carlyle Group for $3.2 billion. Proceeds from the sale will be used, in part, to finance ITW's share repurchase program, which investors favor as a priority use of cash over the course of the economic downturn and sluggish recovery. Private equity carve-out specialists continue to look to industrial manufacturers for restructuring opportunities.

- Manufacturers have been seeking to align with faster-growing segments such as oil, gas, and petrochemicals. This trend has prompted activity by strategic and financial investors across multiple industries over the last 12 months, including Sulzer's recently announced $1.1 billion sale of its Metco coating unit. The spin-off is expected to enable the Swiss machinery manufacturer to focus on its more lucrative businesses: making pumps and equipment and providing services for the oil and gas industry. In fact, in 1Q14, the share of targets involved in the energy industry was among the highest in the last ten years.

Going forward, industrial manufacturers face another challenging year, as demand remains underwhelming across many verticals and growth is inconsistent in key regions. Companies will continue to engage in bolt-on acquisitions and look to carve out non-core businesses. The challenge for IM companies: aligning portfolios toward faster-growing markets (such as oil and gas) without overpaying.

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/assembling-value.jhtml* for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,

Bobby

Bobby Bono
US Industrial Manufacturing Leader