Assemblingvalue

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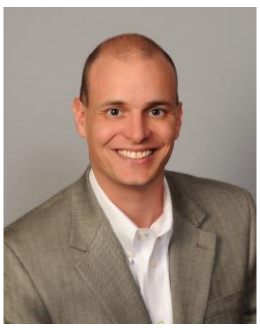
Second-quarter 2015 global industrial manufacturing industry mergers and acquisitions analysis



Bobby Bono

Overview

Global M&A activity maintained a strong pace in 2Q15 despite lackluster transaction volume in the United States and a notable drop off in cross-border activity. The number of transactions of $50 million or above increased to 66, a slight improvement over the 59 first quarter deals and the fifth quarter in a row to exceed a 50-deal pace. With $28.2 billion in announced deals, 2Q15 totals were well below the near record $60.4 set in the same quarter of the prior year but easily exceeded the five-year median rate. Almost half the dollar value of transactions was driven by one megadeal, and three transactions of a billion dollars or greater were announced in the quarter.

Regional activity

Global manufacturing activity expanded in the second quarter but at a slower pace than the prior quarter. Domestic growth remains healthy across most end-markets but the strong US dollar and soft overseas demand are sources of concern for US-based exporters, according to PwC's *Manufacturing Barometer* survey. Executives are more risk averse as a result of currency and commodity market volatility and have become more cautious about expansion plans. US transaction activity has been hampered by an obscured growth outlook and associated difficulty determining fair pricing on M&A targets.

Production figures in Europe signal a reasonable pace of recovery even as uncertainty looms regarding the future of Greece and the European Union. Strong exports led by weak currency and increasing domestic spending stemming from low oil price bode well for the region. Transaction activity was limited in the second quarter.

Emerging markets accounted for almost two-thirds of all deals, well above their typical share. As we have noted in prior reports, heavy transaction activity in China has been driven partially by the need to eliminate excess capacity in the region as the baseline growth rates slows. The economic outlook in the region appears to be worsening with PMI levels persisting below 50. Policy makers continue to cut rates in an effort to spur growth, offset weak capital markets, and stimulate subdued commodity prices. However, manufacturing employment continues to deteriorate and consolidation remains the dominant theme.

US share of global activity dropped to among its lowest levels in a decade and the share of global deals involving energy related entities dropped below 15% in the first half of 2015 (versus 23.8% in 2014). Sustained low oil price has adversely impacted all players along the oil field and energy sector's equipment manufacturing supply chain.

Cross-border deals dropped to 16.7% of the global total, the lowest share in at least ten years. However, going forward, the strong dollar could drive US outbound deals in the coming months (since foreign targets have become cheaper in US currency).

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M&A themes

Strategic activity in 2Q15 covered a diverse range of end markets. We see a continued emphasis among industrial manufacturers on portfolio enhancement and strategic realignment. Companies are cautious about growth, keeping an eye on economies of scale and operating efficiencies in core businesses. Financial investors continue to pursue high quality industrial assets with stable growth prospects, particularly in recovering markets.

PwC analysts are monitoring several additional trends expected to affect the value and volume of deals in the global industrial manufacturing sector:

- **Activist investors.** There has been a heightened level of activity from the activist investor community, and we're starting to see how this is affecting M&A activity and strategic decisions across the industrial products sector.

- **Shedding non-core businesses.** Restructuring of businesses by aligning business portfolios to high-growth areas in areas of core competencies. Companies are redeploying free capital in core activities to improve shareholders' return.

- **Financial buyers.** With plenty of cash at their disposal, investor groups have been highly active in deals involving diverse end markets. Activity is particularly heavy in Asia and areas of Europe on the verge of a recovery.

- **Next wave technology.** Investing in advances in automation, efficiency, and machine communication as well as next generation robotics and nanotechnology or acquiring niche expertise in these areas.

Outlook

We remain optimistic that deal activity in the industrial manufacturing sector will continue at a brisk pace. The biggest challenge for potential buyers is calibrating the long-term growth themes (emerging markets and resource scarcity megatrends) with near-term volatility. Companies are reevaluating growth opportunities in major markets as they digest both the direct and indirect economic implications of the deterioration in oil prices and consider the potential impact of the first round of regulatory tightening on US economic activity.

We're pleased to present our second-quarter 2015 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