
Assembling value

Fourth-quarter 2014 industrial manufacturing industry mergers and acquisitions analysis

Highlights



To our industrial manufacturing readers



Bobby Bono
US Industrial
Manufacturing
Leader

Bobby

To provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share our quarterly analysis of M&A activity in the global industrial manufacturing sector. In this edition of *Assembling value*, you'll find an overview of deal activity over the last 12 months with a focus on the fourth quarter, as well as our expectations for the near future.

Total deal value soared in 2014, reaching \$127 billion, more than 2.5 times the prior year result and among the largest in the history of the sector. Deal volume jumped by more than 40 percent over the prior year and included 24 announced megadeals, or transactions with an announced deal value of at least \$1 billion. Deal activity remained robust in the fourth quarter, even though geopolitical risks intensified and sharp declines in energy prices muddled the economic growth picture for many regions and end markets.

M&A activity continues to be driven by horizontal consolidation and divestitures of non-core business. Companies are monetizing (divesting) non-core assets, leveraging scale in core businesses, and considering joint ventures and new strategic alliances to expand markets. Management attention has generally shifted away from headcount reduction and restructuring/cost-cutting programs toward growth initiatives and filling in talent gaps. The key goal is to align businesses with long-term growth strategies, such as those driven by megatrends such as resource scarcity and urbanization, despite near-term economic volatility and uncertainty.

On a regional basis, Asia led the way in deal volume this past year, but inbound activity in the region remained subdued. Foreign buyers have become wary due to a perceived oversupply of capacity, materials, and debt in the region and local consolidation is well underway. Regional activity was extremely active, with China involved with almost 40 percent of all deals. Both financial and strategic buyers seek high-quality businesses in distressed regions or markets.

Market expansion, access to new technologies, and a compelling need to generate synergies will drive M&A activities going forward, particularly in established markets. Rising pressure to comply with stricter regulations and talent crunch are likely to be management's top agenda for the year. Companies with healthy balance sheets and favorable access to financing have a clear opportunity in 2015.



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PwC analysts are monitoring several additional trends expected to affect the values of deals in industrial manufacturing:

- **Urbanization and shifts in economic power.** Aligning business portfolio with long-term attractive markets, particularly developing economies with a growing middle class.
- **Resource scarcity.** Taking advantage of capital investments tied to resource scarcity such as energy efficiency initiatives and developments in shale gas, despite near-term downturn commodity prices.
- **High-quality manufacturing business.** Strategic as well as financial investors continue to pursue high-quality industrial assets and are more willing to acquire companies with stable growth prospects, even at a higher valuation.
- **Shedding non-core businesses.** Restructuring of businesses by aligning offerings in high-growth areas. 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 such as packaging and metal components.
- **Expansion of global customer base.** Manufacturers are motivated to expand their portfolio with complementary products acquisitions, as customers become more demanding for more holistic products and service line offerings.
- **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.
- **Filling the talent gap.** Manufacturers continue to struggle to find and retain a talented workforce, especially professional and technical workers, and a skilled labor portfolio is becoming a more important factor in evaluating targets.
- **Asia looks overseas.** Lack of innovation, inability to move up the value chain, and cooling domestic markets will likely prompt Asian manufacturing companies to look for opportunities in established markets.

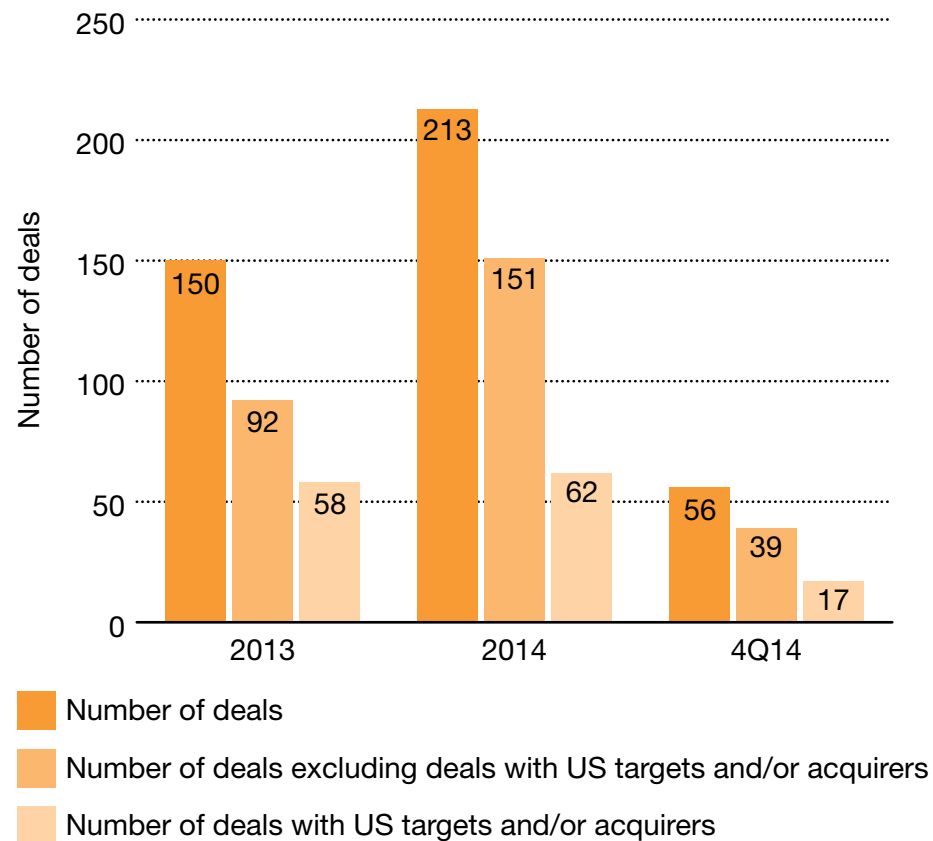
We remain optimistic that deal activity in the industrial manufacturing sector will likely continue at a brisk pace. The biggest challenge for potential buyers is calibrating the long-term growth themes (emerging markets and resource scarcity megatrends) with near-term volatility. Companies are reevaluating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

Deal activity

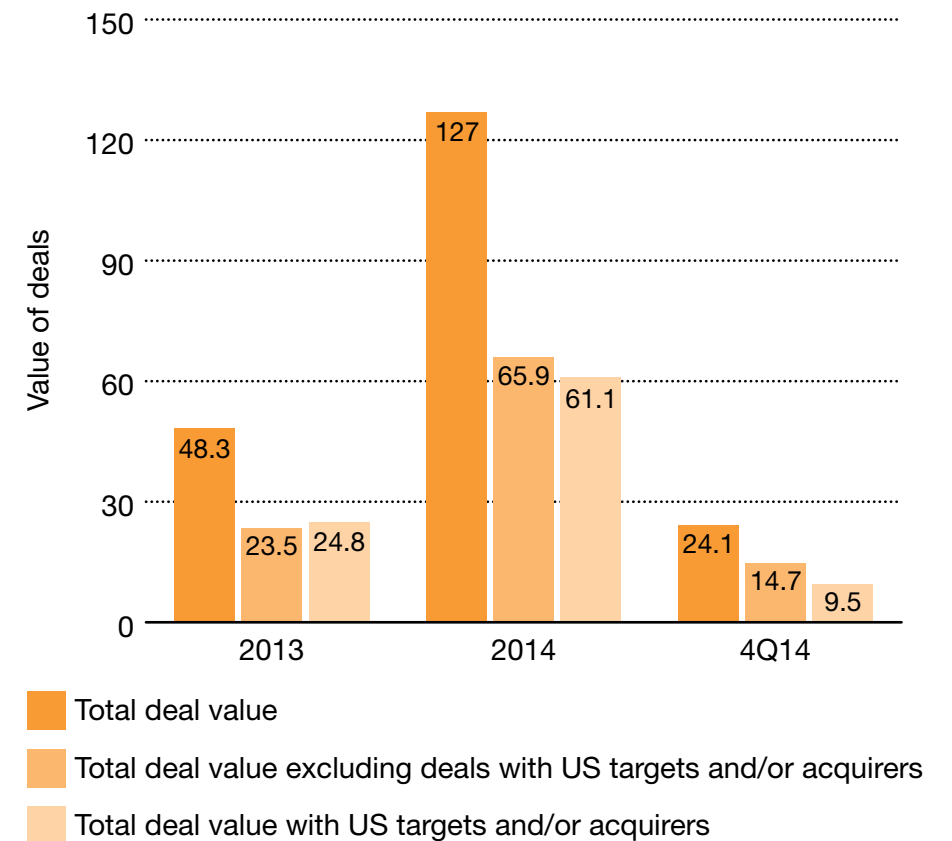
Deal activity by number of deals

Measured by number of deals \$50 million or more



Deal activity by total deal value

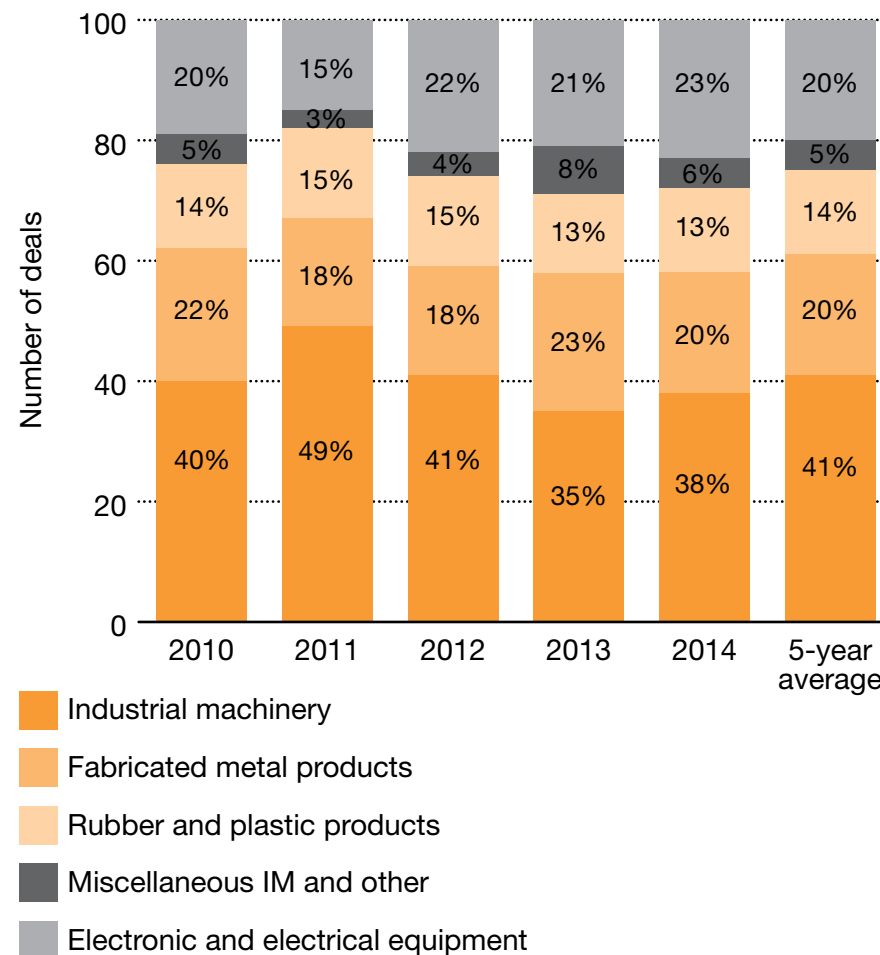
Measured by value of deals \$50 million or more



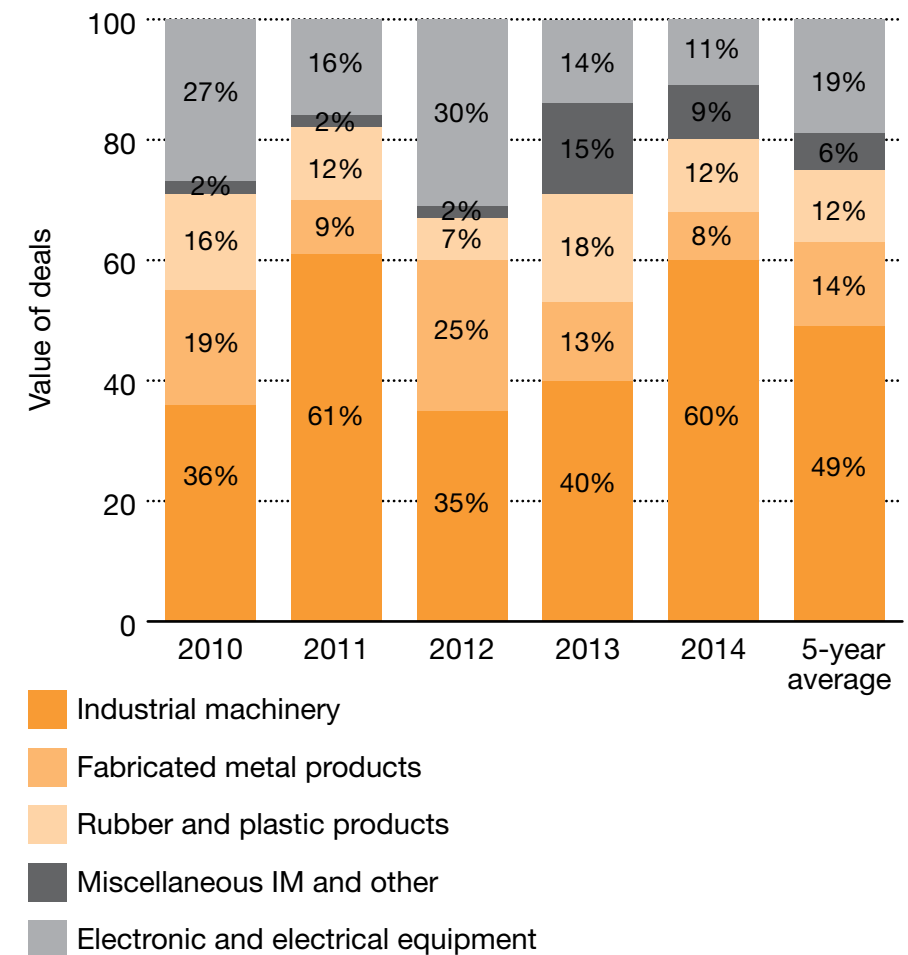
Total deal value soared in 2014, reaching \$127 billion, or more than 2.5 times the prior year result for transactions greater than \$50 million. That total exceeds the ten-year high set in 2006 and is among the largest in the history of the sector. Deal volume jumped by more than 40 percent over the prior year. The average deal size for 2014 was nearly \$600 million and more than \$1.0 billion for US-based targets. The fourth quarter saw a slight drop in number of transactions from the prior quarter but maintained a pace well above a year earlier.

Deal market characteristics

Distribution based on volume

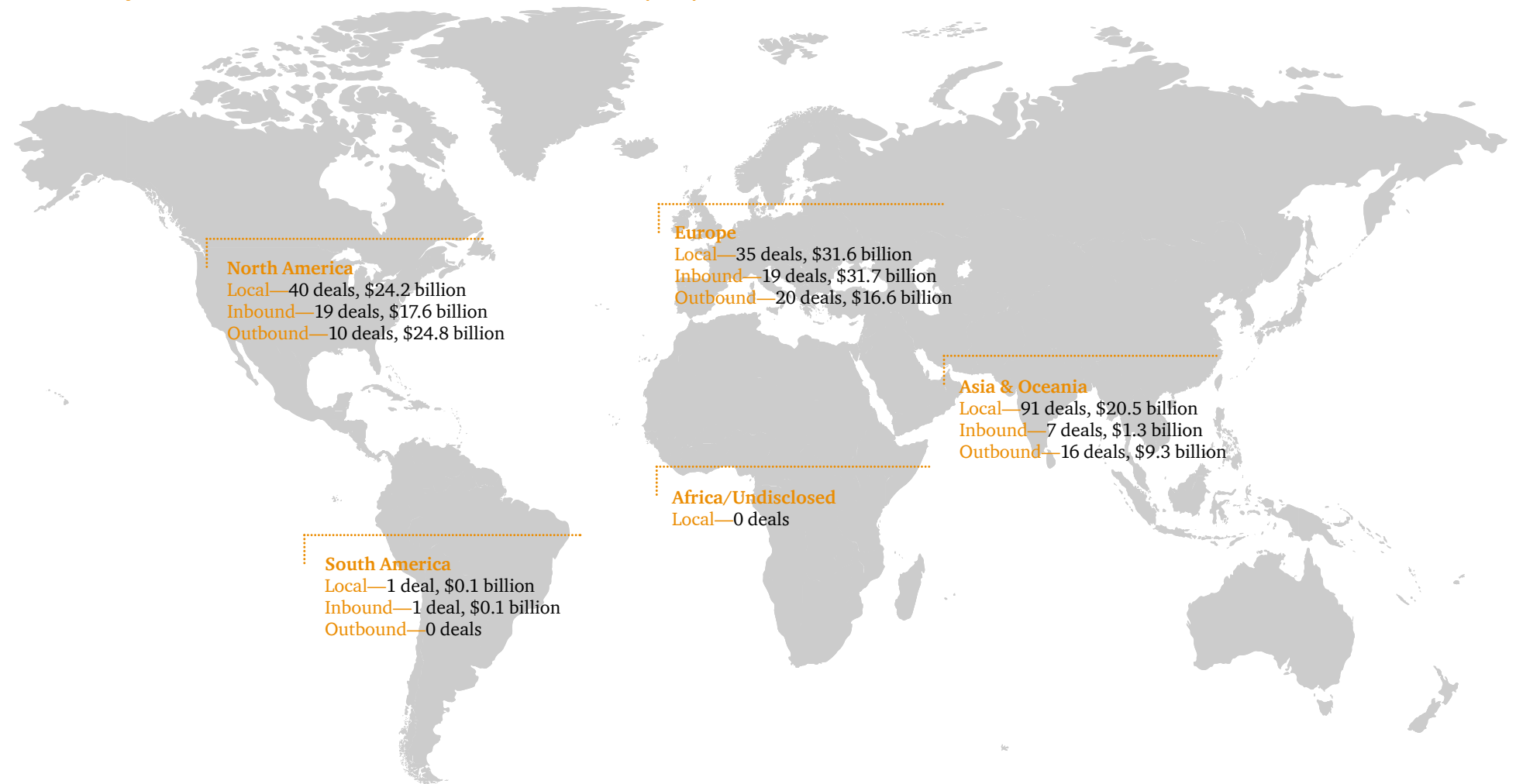


Distribution based on value



The distribution of activity across the segment remained relatively steady on the basis of volume but heavily favored industrial machinery on the basis of value. Large industrial machinery manufacturers have addressed global overcapacity through significant shifts in their business portfolios. Even the largest global machinery companies are finding that further scale is necessary to squeeze out costs from operations and extract pricing concessions through higher supplier discounts. Efficiencies include globalizing best practices to improve quality, increase productivity, and control operational costs in newly acquired segments.

Global chemicals M&A activity 2014
Measured by number and value of deals worth \$50 million or more (2014)



On a regional basis, Asia led the way in deal volume this past year but inbound activity in the region remained subdued. Foreign buyers have become wary due to a perceived oversupply of capacity, materials, and debt in the region and local consolidation is well underway. Deals involving China were 40 percent of the total. Europe, on the other hand, saw a significant amount of local, inbound, and output activity despite continued economic malaise in the region. Local and foreign buyers continue to scour the region for high-quality businesses as they look to align their business portfolio with long-term attractive markets. Both strategic and financial buyers actively seek discounted assets from distressed sellers in the region. Emerging market activity boomed in 2014, but no cross-border activity was generated from the region in 4Q14 among deals of \$50 million or greater.

Large deals

Megadeals in 2014 (deals with a disclosed value of at least \$1 billion)

| Month announced | Target name | Target nation | Acquirer name | Acquirer nation | Status | Value of transaction in US\$ bil. | Category |
|-----------------|---|----------------|----------------------------------|-----------------|-----------|-----------------------------------|-----------------------------------|
| Apr | Alstom SA-Energy Businesses | France | Gen. Electric Co-Energy Assets | United States | Pending | 17.12 | Industrial Machinery |
| Sep | Dresser-Rand Group Inc. | United States | Siemens AG | Germany | Pending | 6.69 | Industrial Machinery |
| Jul | International Game Technology | United States | GTECH SpA | Italy | Pending | 6.26 | Miscellaneous IM & Other |
| Apr | Metso Oyj | Finland | Weir Group PLC | United Kingdom | Withdrawn | 6.22 | Industrial Machinery |
| Apr | Alstom SA-Gas Business | France | Siemens AG | Germany | Withdrawn | 5.85 | Industrial Machinery |
| Apr | Gates Corp. | United States | Blackstone Group LP | United States | Completed | 5.40 | Rubber & Plastic Products |
| Apr | Alstom SA-Steam & Nuclear Business | France | Mitsubishi Heavy Industries Ltd. | Japan | Withdrawn | 5.31 | Industrial Machinery |
| Oct | Duracell International Inc.. | United States | Berkshire Hathaway Inc. | United States | Pending | 4.70 | Electronic & Electrical Equipment |
| Nov | SIG Combibloc Group AG | Switzerland | Investor Group | Canada | Pending | 4.67 | Industrial Machinery |
| Dec | Halla Visteon Climate Control Corp. | South Korea | Investor Group | South Korea | Pending | 3.60 | Industrial Machinery |
| Mar | Cheil Industries Inc. | South Korea | Samsung SDI Co Ltd. | South Korea | Completed | 3.29 | Rubber & Plastic Products |
| Feb | Illinois Tool Works Inc-Industrial Packaging Segment | United States | The Carlyle Group LP | United States | Completed | 3.20 | Industrial Machinery |
| Jun | Alstom SA | France | France | France | Intended | 2.94 | Industrial Machinery |
| Apr | #NAME? | Norway | Alfa Laval AB | Sweden | Completed | 2.17 | Industrial Machinery |
| Apr | GEA Group AG-Heat Exchangers Business | Germany | Triton Advisers Ltd. | Jersey | Completed | 1.80 | Industrial Machinery |
| Apr | Rolls-Royce Holdings PLC-Energy Gas Turbine & Compressor Business | United Kingdom | Siemens AG | Germany | Completed | 1.67 | Industrial Machinery |
| May | Mauser AG | Germany | Clayton Dubilier & Rice LLC. | United States | Completed | 1.65 | Rubber & Plastic Products |
| Jan | Rautaruukki Oyj | Finland | Svenskt Stal AB | Sweden | Pending | 1.55 | Fabricated Metal Products |
| Dec | Emerson Electric Co-Power Transmission Solutions Business | United States | Regal Beloit Corp. | United States | Pending | 1.44 | Fabricated Metal Products |
| Sep | Vacon Oyj | Finland | Oy Danfoss Ab | Finland | Pending | 1.34 | Electronic & Electrical Equipment |
| Jul | Green Courte Partners LLC-Manufactured Homes Portfolio | United States | Sun Communities Inc. | United States | Pending | 1.31 | Miscellaneous IM & Other |
| Jul | Video Gaming Technologies Inc. | United States | Aristocrat Leisure Ltd. | Australia | Completed | 1.28 | Miscellaneous IM & Other |
| Jan | Sulzer Metco AG | Switzerland | OC Oerlikon Corp AG | Switzerland | Completed | 1.10 | Industrial Machinery |
| Apr | Alstom SA-Auxiliary Components Business | Germany | Triton Advisers Ltd | Jersey | Completed | 1.01 | Industrial Machinery |
| Oct | Duracell International Inc | United States | Berkshire Hathaway Inc | United States | Pending | 4.70 | Electronic & Electrical Equipment |
| Nov | SIG Combibloc Group AG | Switzerland | Investor Group | Canada | Pending | 4.67 | Industrial Machinery |
| Dec | Halla Visteon Climate Control Corp | South Korea | Investor Group | South Korea | Pending | 3.60 | Industrial Machinery |
| Dec | Emerson Electric Co-Power Transmission Solutions Business | United States | Regal Beloit Corp | United States | Pending | 1.44 | Fabricated Metal Products |

Large announced transactions were in abundance in 2014 with 24 announced megadeals, or transactions with an announced deal value of at least \$1 billion, relative to 11 in the prior year. It should be noted that some of these are multiple, competing bids for the same asset. We include these in our total since they reflect the overall appetite for transaction activity in the sector. While we expect activity to continue at a brisk pace, it will be difficult to match the 24 announced megadeals from 2014.

Methodology

Assembling value is an analysis of deals in the global industrial manufacturing industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have primary SIC codes that fall into one of the following SIC industry groups: millwork, plywood, and structure; wood buildings and mobile homes; partitions, shelving, and lockers; gaskets, packing, and sealing devices; fabricated rubber products; miscellaneous plastics products; heating equipment, except electric air; fabricated structural metal products; bolts, nuts, screws, and other machine products; metals forgings and stampings; coating, engraving, and allied services; miscellaneous fabricated metal products; engines and turbines; farm and garden machinery; metalworking machinery; special industry machinery; general industrial machinery; refrigeration and service industry machinery; miscellaneous industrial and commercial machinery; electric transmission and distribution equipment; electrical industrial apparatus; electrical lighting and wiring equipment; miscellaneous electrical machinery and equipment; and miscellaneous manufacturing industries. Balance sheet data was sourced from public company reports.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between January 1, 2013, and December 31, 2014, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the buyer have been met but deal has not been completed), or withdrawn.

Regional categories used in this report approximate United Nations (UN) Regional Groups, as determined by the UN Statistics Division, with the exception of the North America region (includes Northern America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups) and Europe (divided into UK and Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong. The term deal, when referenced herein, refers to deals with a disclosed value of at least \$50 million unless otherwise noted.

Resources

PwC Industrial Manufacturing practice

Our Industrial Manufacturing practice, strategically located in more than 30 countries around the world, comprises a global network of industry professionals serving manufacturing clients. We bring experience, international industry best practices, and a wealth of specialized resources to help solve business issues.

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