Forging*ahead*

First-quarter 2015 metals industry mergers and acquisitions analysis

Michael Tomera

Jim Forbes

Welcome to *Forging ahead,* our quarterly analysis of mergers and acquisitions (M&A) in the global metals sector. In this summary, you'll find an overview of mergers and acquisitions in the sector during the first quarter of 2015.

Overview

In the first quarter of 2015 we saw significant declines in both value and volume on a sequential basis as the deal environment slowed. However, there was an increase of 38.6 percent in average deal value, driven in part by three megadeals (deals valued at $1 billion or more). Thus, while fewer deals are being announced, they tend to be larger than what was seen in the fourth quarter of 2014. The three megadeals, with a combined value of almost $4.3 billion dollars, were responsible for just over 60 percent of all deals valued at $50 million or more.

Segmentation activity

On a segment basis, deals involving other metal producers were responsible for more than 85 percent of the first quarter's activity. As noted above, the quarter's three largest deals involved other metal producers. The proportion of deals involving emerging and developing nations continued to grow, driven by strong activity in China. Finally, activity by financial investors continued to increase, yet strategic investors were still responsible for the majority of activity by both volume and value in the first quarter of 2015. It should be noted that strategic investors generally have longer investment horizons, which support their high involvement compared with financial investors.

Steel production continues to decline globally despite an increase in demand from key end-use markets, such as the automotive and construction industries. While steel prices remained weak in 2014, a modest uptick is expected in 2015 and then significant growth from 2016 through 2018. In China, many smaller steel mills have been forced to cut back or stop production in the face of stricter environmental oversight by the government, which has pledged to reduce pollution in the steel industry. One bright spot for steelmakers is the continued decrease in iron ore prices, which could lower production costs; prices are expected to fall to historically low levels in 2015. On a more positive note, aluminum prices are rebounding and are expected to increase from 2015 through 2018.

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Regional activity

On a regional basis, Asia and Oceania led volume and value with 70 percent of deal volume and more than 58 percent of deal value. A significant proportion of this activity involved China-based companies. Consolidation of Chinese metals producers was responsible for ten deals, valued at $3.7 billion. This is not surprising, given the Chinese government's continued work to consolidate its heavy industry, improve productivity and export activity, and reduce pollution. There were three European deals valued at $1.5 billion. North America was also represented, with three deals valued at $1.4 billion.

Outlook

While the first quarter of 2015 saw declines in activity, we remain cautiously optimistic that the environment is likely to improve. The United States' GDP is only expected to advance 1.3 percent in the first quarter; expectations are that improvements in key end-use sectors such as automotive and construction should drive higher GDP growth, and increased demand later in the year, leading to a need for increased capacity. Also, while growth has slowed, both China and India's economy continue to expand, driving increased need for metals, particularly steel and aluminum.

We're pleased to present our first-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/forging-ahead.jhtml_ for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,

Michael Tomera
US Metals Leader

Jim Forbes
Global Metals Leader