

Second-quarter 2014 metals industry mergers and acquisitions analysis



Sean Hoover



Jim Forbes

PwC is pleased to share with you our quarterly analysis of merger and acquisition (M&A) activity in the global metals sector. Forging ahead offers our insights on deals in the sector during the second quarter of 2014.

The metals deal environment rebounded, showing strong growth sequentially and year over year. Both volume and value increased, bringing the average deal value to close to the last three years' average. The improvement in deal value was boosted by the announcement of two mega deals (deals valued at greater than \$1 billion). In June, aluminum maker Alcoa, seeking to grow its aerospace division, agreed to purchase UK-based aerospace parts manufacturer Firth Rixson for \$3 billion. In May, China's state-owned National Social Security Fund agreed to purchase more than \$2.2 billion worth of stock in CITIC Pacific, a Hong-Kong-based steel products manufacturer. The sale is part of a plan to raise funds to enable CITIC Pacific to purchase \$37 billion worth of assets from its state-owned parent.

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

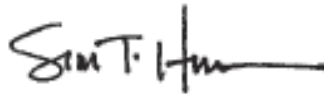
- **The proportion of deals involving financial investors continued to grow, in keeping with the trend of the last two years.** This growth was driven in part by the CITIC Pacific stock acquisition. At the same time, deals involving steel companies rebounded after last quarter's weak showing and accounted for nearly 47% of the second quarter's M&A activity, in line with recent trends. Aluminum segment activity was also strong, driving almost 35% of activity, aided by Alcoa's acquisition of Firth Rixson.
- **On a regional basis, Asia and Oceania led deal volume, driving almost two-thirds of the second quarter's volume globally.** Once again, China was the dominant player in the region, and was involved in 12 deals (all local market) valued at almost \$3.9 billion, representing more than 95% of the region's deal value of approximately \$4.1 billion. These deals are indicative of China's continuing goal to consolidate its heavy industry and improve productivity. North America led in deal value with almost \$4.2 billion. This activity was driven by US-based companies, which were responsible for five acquisitions valued at nearly \$4.1 billion. Despite weak residential construction activity in the early part of the second quarter, non-residential construction in the United States increased, driving increased demand for steel.
- **China is considering opening its steel industry to foreign investment, which has been banned since 2005.** This would provide opportunities for increased M&A activity in the nation's \$423 billion steel sector. China is the world's largest producer of steel and manufactures more than seven times as much steel as the United States, the second-largest steelmaking nation.

While 2014 started off at its lowest level in the past five years, the second quarter showed marked improvement. Despite a significant decline in the US GDP in the first quarter, the economy is expected to rebound, which could drive further industrial demand and M&A activity as companies look to consolidation as a means to increase economies of scale. At the same time, China's second quarter GDP is expected to remain steady at 7.4%, and a recovery may be coming, driven by increased urbanization and a growing middle class. These gains, along with increasing economic activity in the Eurozone, South Korea, and Japan, lead us to be cautiously optimistic that the deal market will continue to improve in the near term.

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

Sincerely,



Sean Hoover
US Metals Leader



Jim Forbes
Global Metals Leader