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# ***Forging ahead***

## Fourth-quarter 2013 global metals industry mergers and acquisitions analysis

### ***Highlights***

## To our global metals industry readers



**Sean Hoover**  
US Metals Leader

To provide further insight on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you our quarterly analysis of M&A activity in the global metals sector. *Forging ahead* offers an overview of mergers and acquisitions in the sector during the fourth quarter, as well as a wrap-up of 2013.

Deal value improved in the fourth quarter, with a sequential increase of more than 60 percent, driven in large part by mega-deals (deals valued at \$1 billion or more). Deal volume and value, on an annual basis, nevertheless continued to decline, a trend in effect since 2011.

Deals by financial investors saw a slight uptick in 2013, although these deals declined substantially in the fourth quarter.

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

- Overall deal activity continued to be driven by activity in Asia and Oceania, with China driving many of these transactions. China continues to consolidate its metals industry as it seeks to improve efficiency and improve margins. This consolidation is part of the country's most recent five-year plan and stems from the inefficiency of the domestic industry.
- The global steel market is expected to begin to recover in 2014, driven in part by improvements in Europe. This improvement is expected to offset declines in China,

where steel production growth is expected to decelerate. However, excess capacity remains a concern and limits a more extensive recovery.

- Iron ore prices remain stable, although they are close to a five-month low in response to concerns about reduced demand from Chinese steelmakers.
- Weak aluminum prices continue to cause concern. Despite some recent improvement, prices are still nearly half what they were at their high point, in July 2008. These declines are caused in part by excess capacity in the segment.

However, we remain optimistic that the deal environment will improve. As the US economy continues to strengthen, and Europe frees itself from the recent recession, increased demand from many end-use markets should result. At the same time, an expected increase in steel prices may supply funding and provide the impetus for many metals players in advanced regions to look to inorganic means to improve market share.

We also expect companies in emerging economies to continue consolidating in an effort to improve efficiency, lower costs, and drive bottom-line growth.

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.



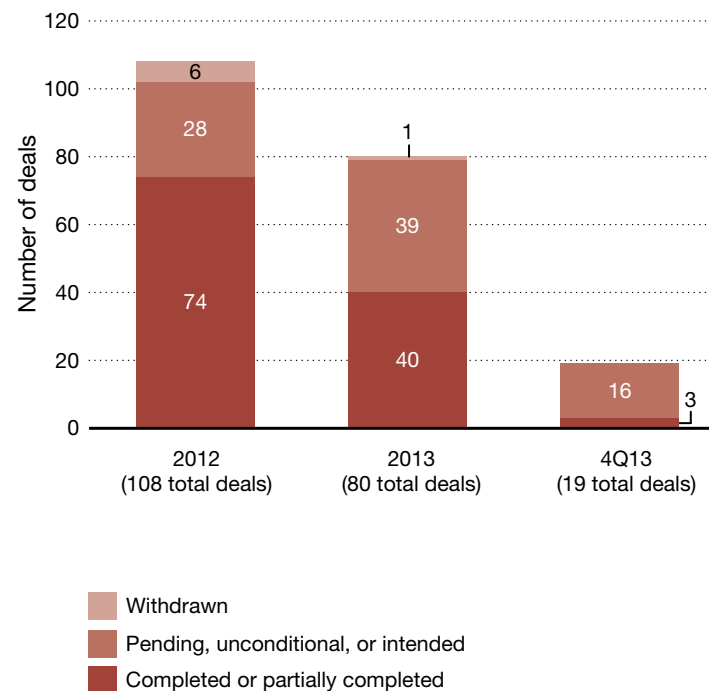
**Jim Forbes**  
Global Metals  
Leader

# Deal activity

*Fourth quarter deal values show strong improvement, driven by an increase in mega-deals.*

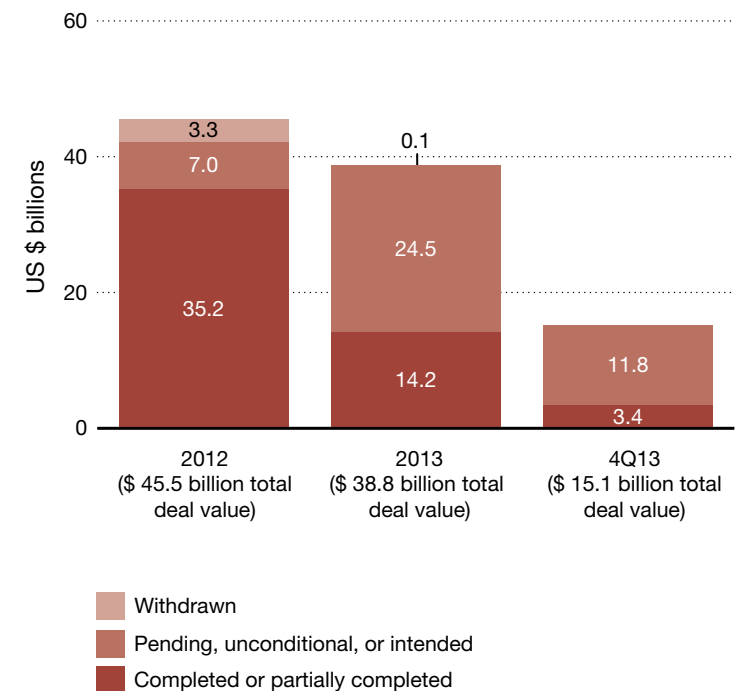
## Deal activity by number of deals

Measured by number of deals worth \$50 million or more (2012, 2013, 4Q13)



## Deal activity by total deal value

Measured by value of deals worth \$50 million or more (2012, 2013, 4Q13)



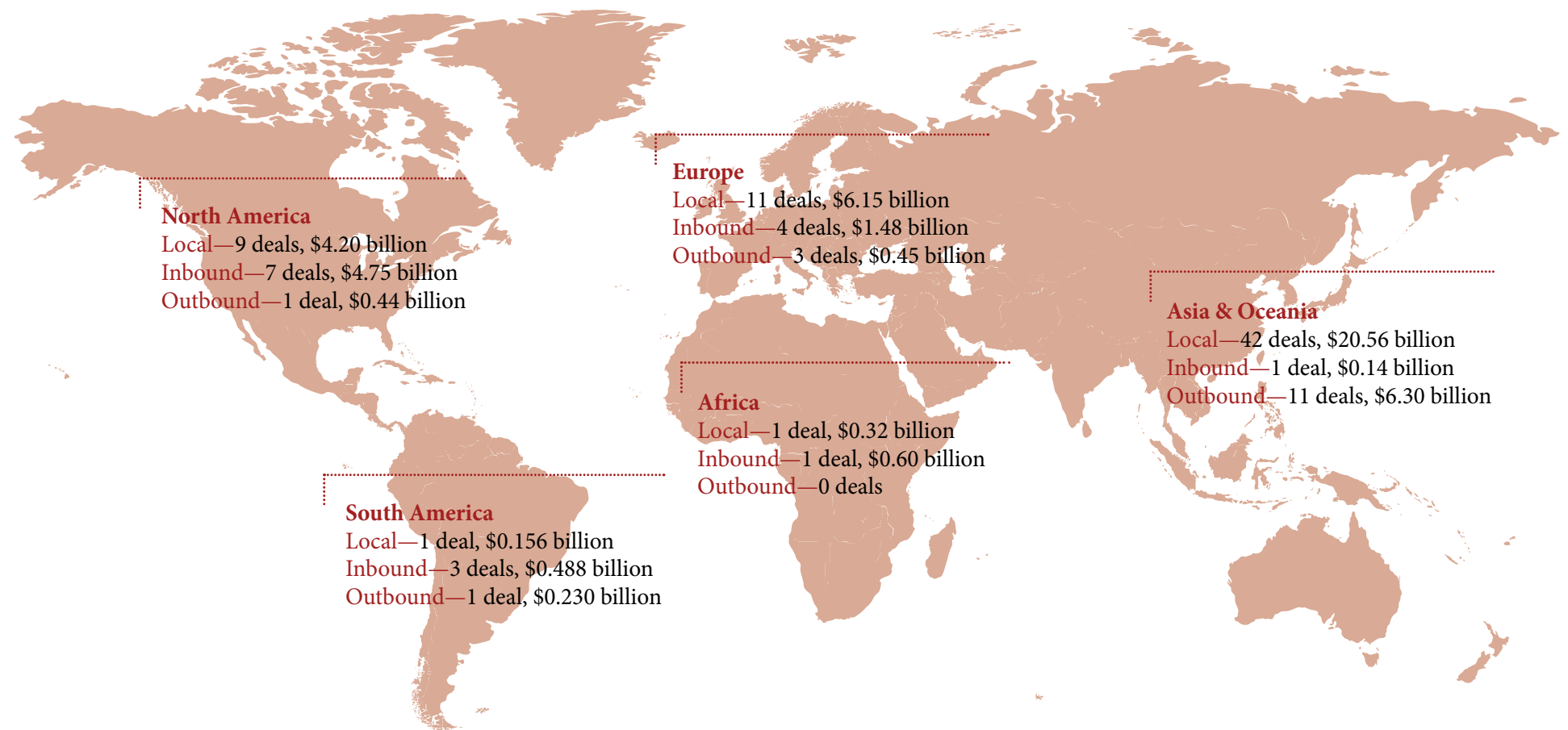
In the fourth quarter, deal value improved significantly, rising to its highest point of the year. Gains in value were driven in large part by the increase in mega-deals (deals valued at more than \$1 billion). As measured by deal value, the fourth quarter drove almost 40 percent of the year's activity. At the same time, deal volume declined somewhat. Average deal value increased as well, to \$797 million, the strongest showing since the first quarter of 2011. Thus, although fewer deals are being announced, they are significantly larger than we have seen recently.

On an annual basis, both volume and value continued to decline, a trend seen since 2011. Compared to 2012, deal volume decreased almost 26 percent, to 80 deals, while value fell almost 15 percent, to \$38.80 billion. Despite these declines, average value improved (to \$485 million), indicative of the increase in larger deals we saw in 2013. One driver of this increased deal value may be the recent improvement in metal commodity prices.

# Deal market characteristics

*Driven by China-related activity, Asia & Oceania continues to lead the world in volume and value.*

Global metals M&A activity  
Measured by number and value of deals worth \$50 million or more (2013)



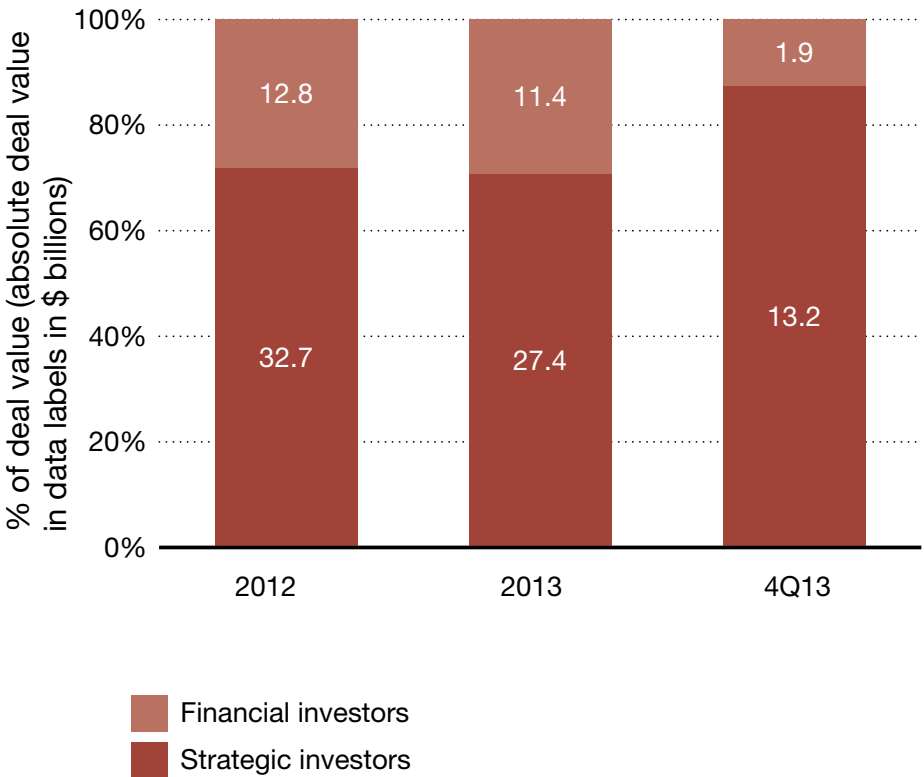
Asia & Oceania-involved deals led 2013 deal value and volume with 54 deals valued at more than \$27 billion. This activity included a mix of local, inbound, and outbound deals, with local deals predominating. A large proportion of this value was the result of five mega-deals with a combined value of almost \$27 billion. China was again the key driver of activity in the region, with 34 deals valued at more than \$16.9 billion. Most deals in China are local-market, as the country seeks to consolidate its industrial base, as laid out in the most recent five-year plan.

North America saw the second-largest deal value in 2013, with 17 deals valued at almost \$9.4 billion. This activity is driven in part by an increase in economic activity in the region. In line with this increased activity, key end-use industries—such as automotive, construction and durable goods—are also seeing improvement, which is driving demand for many metals players.

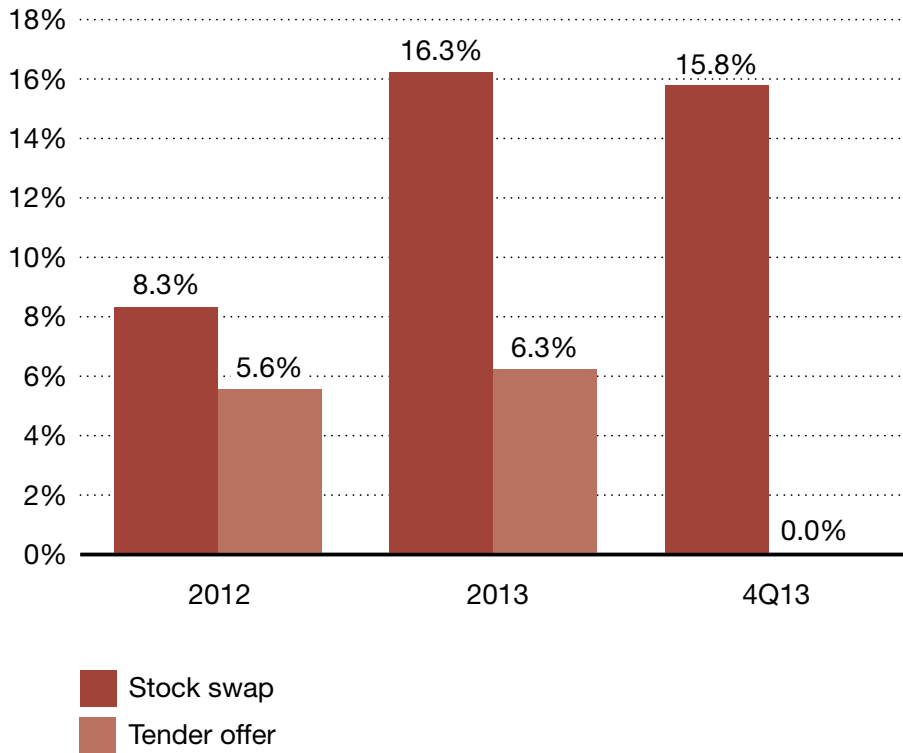
Europe saw the second-highest deal volume for 2013, with 18 deals, valued at almost \$8.1 billion. This is likely driven by increased investor optimism, as Europe is seeing improved economic activity, and the majority of its constituent nations are poised to move out of recession in 2014.

*Stock swaps increase substantially in 2013 as equity markets remain strong.*

**Deals by investor group**  
Measured by value of deals worth \$50 million or more (2012, 2013, 4Q13)



**Acquisition characteristics**  
Measured by percentage of deals worth \$50 million or more (2012, 2013, 4Q13)



Deals by financial investors, which includes banks and credit institutions as well as private equity firms, increased as a proportion of deal value in 2013, although it declined slightly in terms of actual dollars spent, a reflection of lower value overall compared to 2012. We saw a decline based on volume as well.

Stock swaps as a means for acquisition financing increased substantially in 2013. This increase was likely driven in part by the general improvement in the equity market over the course of the year. Increasing stock prices make stock swaps attractive to publicly traded companies as they allow companies to leverage the appreciation in value as a mechanism for acquisitions. Despite the increase in 2013 overall, stock swaps declined slightly in the fourth quarter, likely driven by the increase in deal volume by investor groups such as private equity firms, as these firms rely more on cash and debt for financing.

# Large deals

Increase in fourth quarter mega-deals drives gains in deal value.

## Mega-deals in 2012 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Feb	Sterlite Industries(India)Ltd	India	Sesa Goa Ltd	India	Completed	3.91	Other
Jan	Inoxum AG	Germany	Outokumpu Oyj	Finland	Completed	3.73	Steel
Mar	Roy Hill Holdings Pty Ltd	Australia	Investor Group	South Korea	Completed	3.31	Iron ore
Nov	Titanium Metals Corp	United States	Precision Castparts Corp	United States	Completed	2.61	Other
May	Chongqing Iron&Steel(Group)Co Ltd-Assets	China	Chongqing Iron & Steel Co Ltd	China	Completed	2.11	Steel
Dec	OA0 "Gorno-Metallurgicheskaya Kompaniya Noril'skiy Nikel"	Russian Fed	Crispian Investments Ltd	Russian Fed	Completed	1.49	Other
Nov	WISCO Mining Co Ltd	China	WISCO	China	Pending	1.28	Iron ore
Jan	First Quantum Minerals Ltd- Residual Assets & Claims	Dem Rep Congo	Eurasian Natural Resources	United Kingdom	Completed	1.25	Steel
Oct	Arrium Ltd	Australia	Investor Group	Hong Kong	Withdrawn	1.23	Steel
Mar	Eramet SA	France	France	France	Completed	1.03	Steel
Feb	Baoshan Iron&Steel Co Ltd-Stainless Steel Business	China	Baosteel Group Corp	China	Completed	1.02	Steel

## Mega-deals in 2013 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Nov	Baotou Iron&Steel(Group)Co Ltd-Assets	China	Baotou Iron & Steel(Grp)Co Ltd	China	Pending	4.92	Steel
Oct	Hyundai Hysco Co Ltd-Cold Rolled Steel Business	South Korea	Hyundai Steel Co	South Korea	Completed	2.62	Steel
Apr	Eurasian Natural Resources Corp Plc	United Kingdom	Eurasian Resources Group	Luxembourg	Unconditional	2.22	Other
Nov	Acciai Speciali Terni SpA	Italy	ThyssenKrupp AG	Germany	Pending	1.72	Steel
Nov	ThyssenKrupp Steel USA LLC	United States	Investor Group	Japan	Pending	1.55	Steel
Aug	Shi Yi Investments Ltd	China	Long Grand Ltd	Hong Kong	Pending	1.29	Steel
Oct	Yunnan Xiangyun Feilong Recycling Technology Co Ltd	China	Ningbo Sunlight Electrical	China	Pending	1.18	Other
Feb	Hoganas AB	Sweden	Lindengruppen AB	Sweden	Completed	1.18	Other
Jan	ArcelorMittal Mines Canada- Undisclosed Iron Ore Mining Unit	Canada	Investor Group	South Korea	Completed	1.11	Iron ore

## Mega-deals in 4Q13 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Nov	Baotou Iron&Steel(Group)Co Ltd -Assets	China	Baotou Iron & Steel(Grp)Co Ltd	China	Pending	4.92	Steel
Oct	Hyundai Hysco Co Ltd-Cold Rolled Steel Business	South Korea	Hyundai Steel Co	South Korea	Completed	2.62	Steel
Nov	Acciai Speciali Terni SpA	Italy	ThyssenKrupp AG	Germany	Pending	1.72	Steel
Nov	ThyssenKrupp Steel USA LLC	United States	Investor Group	Japan	Pending	1.55	Steel
Oct	Yunnan Xiangyun Feilong Recycling Technology Co Ltd	China	Ningbo Sunlight Electrical	China	Pending	1.18	Other

In line with the general decline in deal activity for 2013 overall, mega-deal volume and value fell as well, compared to 2012. Mega-deal volume declined from 11 deals to nine, while deal value fell almost 23 percent, to just under \$17.8 billion. However, fourth quarter volume and value increased substantially compared to the rest of 2013.

Five of the year's deals were announced in the fourth quarter, and four of these involved steelmakers. The steel segment has traditionally been more fragmented than the other segments, so this may be indicative of acquirers' efforts to consolidate capacity and increase market share. At the same time, consolidation also gives these companies the opportunity to improve efficiency, lower costs, and improve margins in the face of an improving economic environment.

On a regional basis, Asia was well represented, with three targets and four acquirers. This was driven in part by deals related to China. The largest deal in 2013, involving Baotou Iron and Steel Group, was valued at more than \$4.9 billion. This local deal is an example of efforts by the Chinese government to make domestic producers more profitable by moving less profitable operations into state-owned parents, while transferring the more profitable businesses into listed companies in an effort to improve margins and valuations. This is not unusual; we have seen similar transactions in the past.



# Methodology

*Forging ahead* is an analysis of merger and acquisition activity in the global metals industry. Deal information was sourced from Thomson Reuters and includes deals for targets with primary SIC codes that fall into one of the following industry groups: iron ores; ferroalloy ores, except vanadium; steel works, blast furnaces, rolling mills, and finishing mills; iron and steel foundries; primary smelting and refining/nonferrous; secondary smelting and refining/nonferrous; rolling, drawing, and extruding/nonferrous; nonferrous foundries; miscellaneous primary metals products; and metals service centers and offices. 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, 2012, and December 31, 2013, with a status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), or withdrawn. The term deal, when referenced herein, refers to transactions with a disclosed value of at least \$50 million, unless otherwise noted.

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 North America, Latin America, and the Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom and Eurozone and Europe ex-UK and Eurozone regions). International Monetary Fund classifications were used to label economies as advanced or developing and emerging. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong.

Competing deals, not just the ultimate successful deal partner, were included in the data set used throughout the document.



# Resources

## *PwC Global Metals practice*

PwC's Metals practice provides industry-focused assurance, tax, and advisory services. Through our global network, we can draw upon the in-depth industry experience of specialists in every country in which your company operates.

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