
Forging ahead

Fourth-quarter 2014 global metals industry
mergers and acquisitions analysis

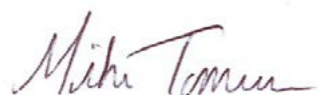
Highlights



To our metal readers:



Michael Tomera
US Metals Leader

A handwritten signature in dark ink, appearing to read "Mike Tomera".

Jim Forbes
Global Metals
Leader

A handwritten signature in dark ink, appearing to read "Jim Forbes".

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 metals sector. In this edition of *Forging ahead*, 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.

Despite a stronger fourth quarter, in which we saw a significant increase in both deal volume and value (fourth-quarter volume improved by 40 percent over the third quarter while value improved almost 18 percent), the year overall saw a decline of more than 26 percent in deal value compared to 2013. This decline on an annual basis was driven in part by the fact that there were only seven megadeals in 2014 (deals valued at \$1 billion or more) with a combined value of just over \$12 billion compared to ten in 2013 valued at almost \$19.5 billion; this decline of more than 38 percent in megadeal value on a year-over-year basis significantly impacted 2014 results.

We saw an increase in deals by financial investors in 2014, driven by strong activity in the fourth quarter. If this activity continues, we may see an improvement in deal activity.

Deal activity continues to be driven by activity in Asia and Oceania, and China played a large part in this. China continues to consolidate its metals industry as it seeks to improve efficiency and margins. This consolidation is a part of its most recent five-year plan and is driven by the perceived inefficiency of the domestic industry.

Deal volume in emerging and developing economies grew as a proportion of activity in 2014, to 58 percent, driven in large part by the continued consolidation in China, as that nation works to increase efficiency and scope in its metals industry, consolidating less profitable regional companies and decreasing pollution.

Excess capacity remained a concern in 2014, particularly in steel, and while steel pricing improved through part of 2014 in some of the segments of the industry, it declined in 4Q across the board and it is expected that prices may continue to decline in 2015. Thus, there is the possibility of significant headwinds to M&A given smaller margins for investment; however, it is too soon to determine whether these pricing trends will continue long-term.

Despite setbacks in 2014, we remain cautiously optimistic that the deal environment will improve in 2015. If the US economy continues to strengthen and Europe works itself free of the recent recession, we should see increased demand from many end-use markets. At the same time, if steel demand increases, this may supply both the funds and the impetus for many metals players in advanced regions to look to inorganic means to increase capacity. Also, we expect producers in emerging economies (particularly in China) to continue consolidating in an effort to improve efficiency, lower costs, and increase exports.

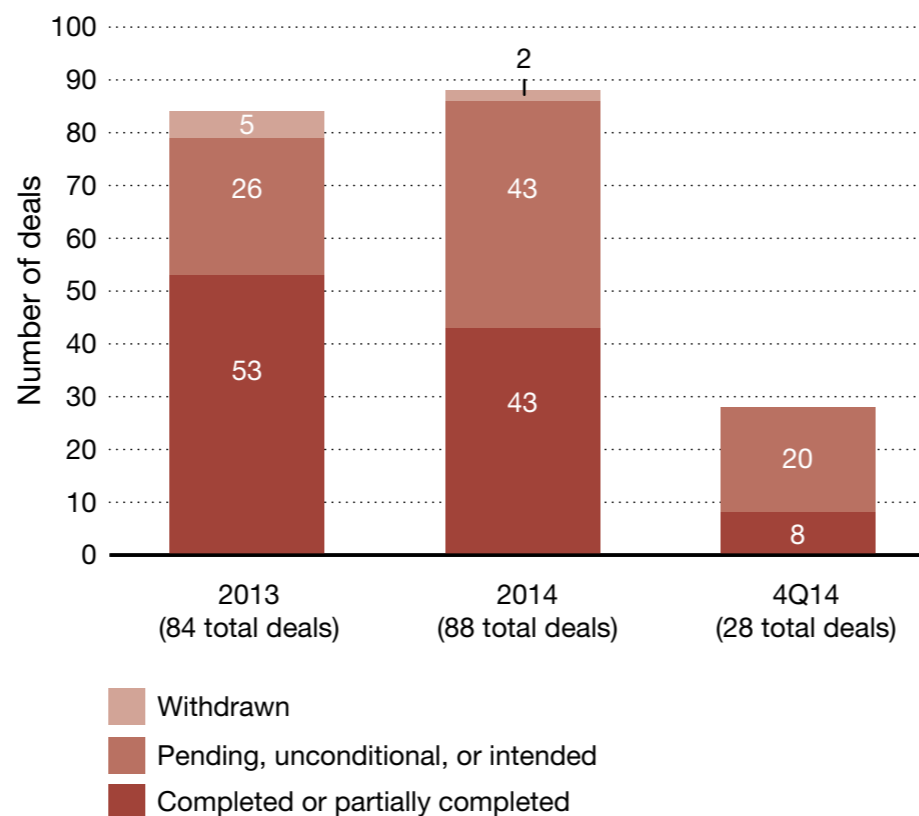
Launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/forging-ahead.jhtml> for a deeper dive into the data, or contact us to further discuss our insights.

Deal activity

Fourth quarter deal values show strong improvement, despite a decline in mega-deals, as volume increases

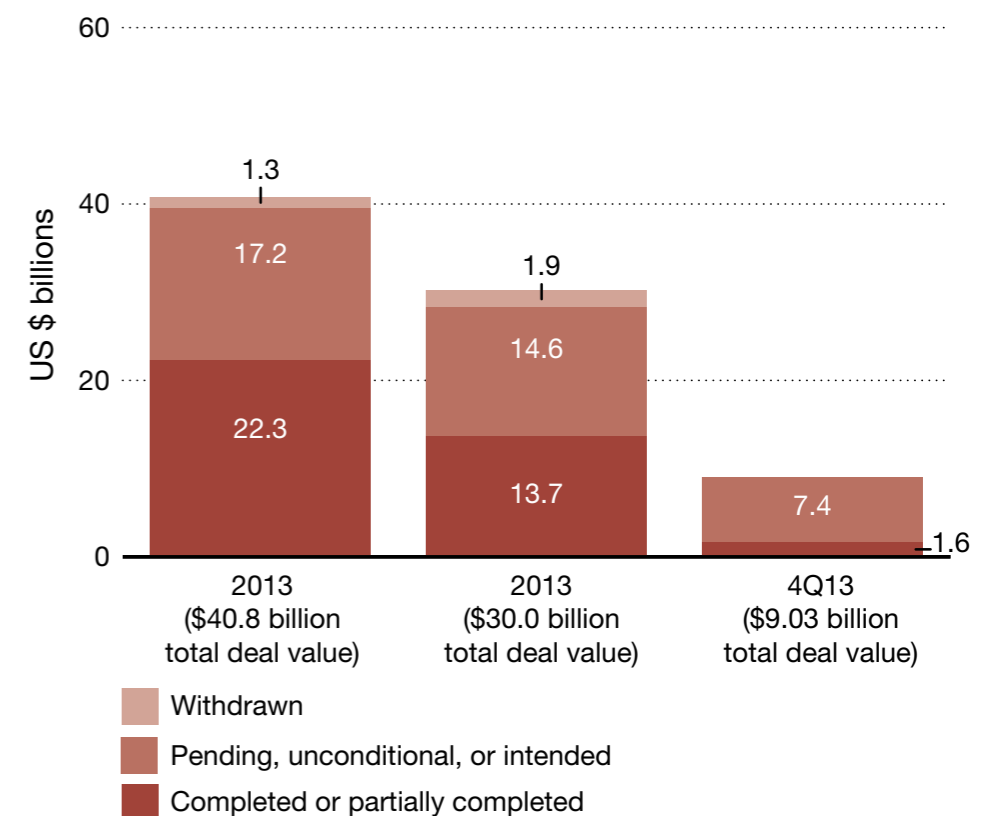
Deal activity by number of deals

Measured by number of deals worth \$50 million or more (2013, 2014, 4Q14)



Deal activity by total deal value

Measured by value of deals worth \$50 million or more (2013, 2014, 4Q14)



In the fourth quarter, deal value improved significantly, rising to its highest point of the year. As measured by deal value, the fourth quarter drove more than 30 percent of the year's activity. At the same time, deal volume increased as well, and was responsible for almost 32 percent of the overall activity for 2014. However, average deal value declined in the fourth quarter, to \$323 million compared to almost \$384 million in the third quarter; thus, although more deals are being announced, they are smaller than we have seen recently.

On an annual basis, deal value continued to decline, a trend seen since 2011. Compared to 2013, deal value decreased more than 26 percent, to \$30.1 billion. However, despite this decline in value, volume increased slightly, to 88 deals, compared to 84 in 2013. Thus, average deal volume declined from \$486 million in 2013 to \$342 million in 2014, as the proportion of larger, more transformative deals declined.

Deal market characteristics

Driven by China-related activity, Asia and Oceania continues to lead globally in volume and value.

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

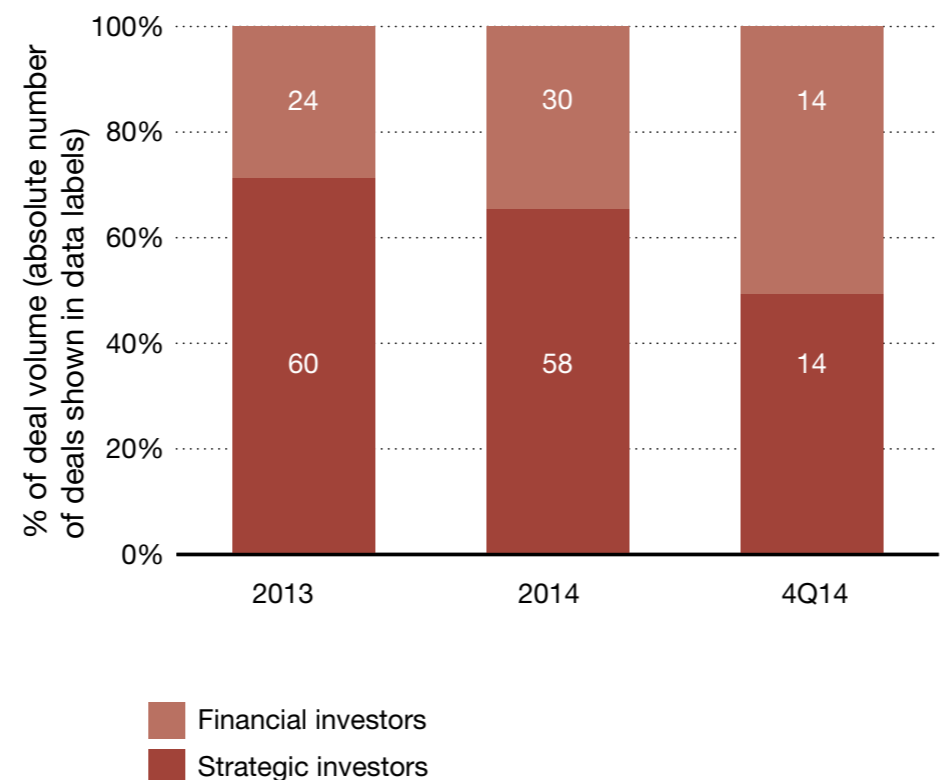


Asia and Oceania-involved deals continued to lead deal value and volume with 62 deals valued at more than \$17.6 billion. This activity included a mix of local, inbound, and outbound deals, with local deals predominating. A large proportion of this value was the result of four megadeals with a combined value of almost \$6.3 billion. China was again the key driver of activity in the region, with 40 deals valued at almost \$12 billion. Most deals in China are local market, as the country seeks to consolidate its industrial base, so they tend to be smaller.

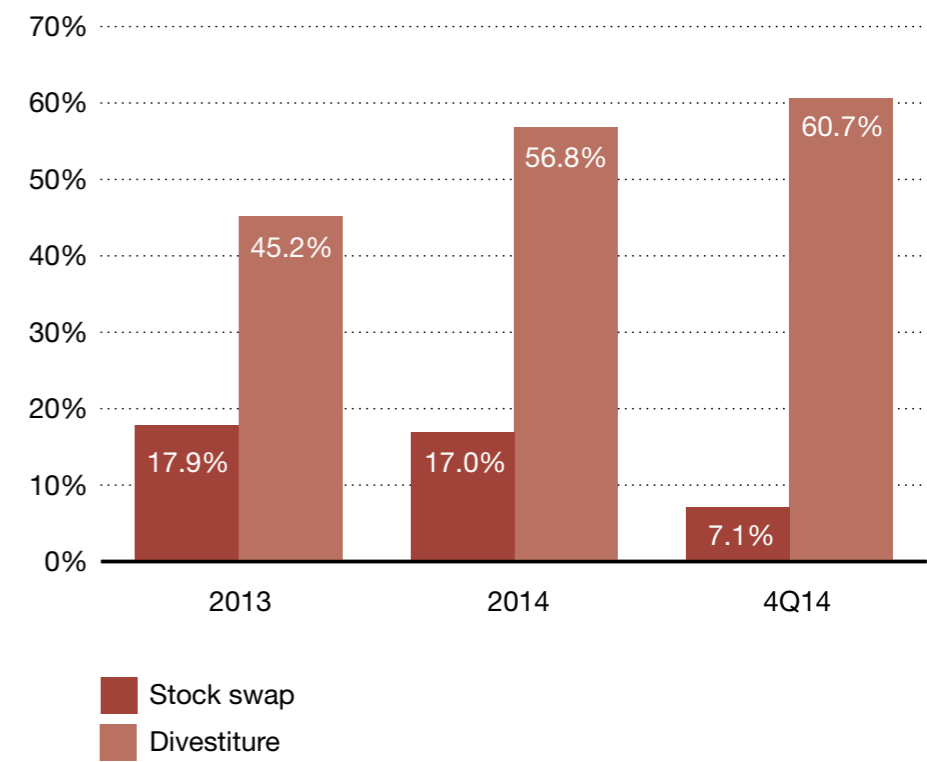
North America saw the second-largest deal value and volume in 2014, with 25 deals valued at almost \$13.5 billion. This activity was driven in part by an increase in economic activity in the region. In line with this increased activity, key end-use industries, such as automotive, construction, and durable goods, continued to see improvement, which helped drive demand for many metals players.

Financial investments increase in 2014 as investors return to the table.

Deals by investor group
Measured by number of deals worth \$50 million or more (2013, 2014, 4Q14)



Acquisition characteristics
Measured by percentage of deals worth \$50 million or more (2013, 2014, 4Q14)



Deals by financial investors, which include banks and credit institutions as well as private equity firms, continued to increase as a proportion of deal activity in 2014. This trend is a continuation of what we saw in 2013. Activity by financial investors was particularly strong in the fourth quarter. This was likely driven by an improved economic environment as well as an increase in available acquisition targets.

At the same time, divestitures by strategic players increased as well. As mentioned above, one driver may be the interest by financial investors to acquire assets, which makes shedding non-core assets more attractive for producers. Stock swaps declined slightly in 2014, likely as a result of the increase in financial investor activity, as these companies rely on debt rather than equity financing.

Large deals

Decline in megadeals drives lower deal value for 2014.

Megadeals 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	4.79	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
Sep	TimkenSteel Corp.	United States	Shareholders	United States	Completed	1.76	Steel
Nov	Acciai Speciali Terni SpA	Italy	ThyssenKrupp AG	Germany	Completed	1.72	Steel
Nov	ThyssenKrupp Steel USA LLC	United States	Investor Group	Japan	Completed	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	1.21	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

Megadeals in 2014 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Jun	Firth Rixson Ltd.	United Kingdom	Alcoa Inc.	United States	Completed	3.00	Other
May	CITIC Pacific Ltd.	Hong Kong	National Social Security Fund	China	Pending	2.17	Steel
Jan	Minmetals Hanxing Mining Industry Co Ltd.	China	China Minmetals Corp.	China	Withdrawn	1.78	Other
Jul	Severstal Columbus LLC	United States	Steel Dynamics Inc.	United States	Completed	1.63	Other
Aug	Waupaca Foundry Holdings Inc.	United States	Hitachi Ltd.	Japan	Completed	1.30	Iron ore
Dec	Dynacast International Inc.	United States	Partners Group Holding AG	Switzerland	Pending	1.10	Steel
Jul	Shenyang Coking Coal Co Ltd.	China	Investor Group	China	Pending	1.04	Other

Megadeals in 4Q14 (value of \$1 billion or more)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Dec	Dynacast International Inc.	United States	Partners Group Holding AG	Switzerland	Pending	1.10	Steel

In line with the general decline in deal value for 2014 overall, megadeal volume and value fell as well, compared to 2013, a trend we have seen since 2012. Megadeal volume declined from ten deals to seven, while megadeal value fell more than 38 percent, to just over \$12 billion. Fourth-quarter megadeal volume and value fell as well, to just one deal valued at \$1.1 billion.

Only one of the year's megadeals was announced in the fourth quarter, and involved Partners Group Holding AG of Switzerland agreeing to acquire the entire share capital of Dynacast International Inc., a Charlotte-based manufacturer of precision engineered metal components, from Kenner & Co Inc., Izurium Capital Management Ltd., W Capital Partners, Laurel Crown Partners LLC, Babson Capital Management LLC, and Macquarie Capital Group Ltd., for an estimated \$1.1 billion in cash, in a secondary buyout transaction.

On a regional basis, Asia and Oceania was well represented, with three targets and four acquirers. This was driven in part by deals related to China. The United States was also a major driver. The largest deal in 2014 involved Alcoa and United Kingdom-based Firth Rixson and was valued at \$3.0 billion. This cross-border deal is an example of efforts by many metals producers to horizontally integrate operations and create captive business opportunities in an effort to achieve stable demand for their products.

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, 2013, and December 31, 2014, 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.

US Metals Industry and Tax Leader

Michael Tomera

+1.412.355.605 or michael.tomera@us.pwc.com

Global Metals Leader

Jim Forbes

+1.905.972.4105 or jim.forbes@ca.pwc.com

Senior Managing Director, Corporate Finance

Rakesh Kotecha

+1 312 298 2895 or rakesh.r.kotecha@us.pwc.com

US Industrial Products Senior Manager

Jennifer Flunker

+1.614.227.3236 or jennifer.flunker@us.pwc.com

US Metals Lead Analyst

Sean Gaffney

+1.412.482.4571 or sean.gaffney@us.pwc.com