PwC Deals

Global Industrial Manufacturing Deals Insights Year-End 2017

Assembling a foundation for growth

Executive summary

Global Industrial Manufacturing M&A measured similar lengths between 2017 and 2016 excluding the megadeal between JCI/Tyco in 2016. Two thousand and seventeen showed us a more predictable and steady deals market as deal makers pushed through turbulence and uncertainty as they assessed assets around the globe. Deal volume was healthy with roughly 2,500 announced deals in both years which was ~100 deals higher than FY 2015.

Cross-sector global deal value remained flat at $3.6 trillion while volume increased slightly by 2.5%. Although US cross-sector deal value plummeted 16%, deal volume increased 14% reflecting the softness of the middle market deal space. The Industrial Manufacturing sector did not show that same level of activity with flat value and volume.

Deal makers should be optimistic about where the deals environment is headed. Many of the headwinds seen in the last half of 2016 and 2017 have subsided. GDP is expected to expand globally to 3.7%, cost of borrowing remains low, and stock market highs are fueling record shareholder returns. Above all, US tax reform has provided the perfect catalyst for increasing M&A activity domestically as well as making the US a more attractive market for other dominant global players, including Europe and China.

"Coupled with the strong global economic environment, tax reform is the perfect catalyst to fuel M&A in 2018 and with record stock prices we may see a resurgence in megadeals."

Paul Elie
US Industrial Manufacturing Deals leader
PwC

Trends and highlights

- Aggregate disclosed deal value for 2017 vs. 2016 was $80.9 billion and $103.7 billion, a 22% decrease. Excluding the $22.7 billion JCI/Tyco deal in 2016, aggregate deal value was flat year over year.
- Deal volume remained relatively flat year over year as well with 2,491 deals announced in 2017 compared with 2,520 deals in 2016. On the other hand, aggregate disclosed deal value for Q4 2017 vs. Q3 2017 increased by 14%, from $21.5 billion and $18.9 billion.
- There were 18 deals with disclosed values greater than $1 billion in 2017 with aggregate value of $34.2 billion compared to 18 deals in 2016 with aggregate value of $57.2 billion, a 67% decrease.
- The largest deal announced in 2017 was the $3.9 billion acquisition of U.S. Signode Industrial Group by Crown Holdings, a global leader in transit packaging. While, the largest financial buyer transaction in 2017 was the $3.85 billion acquisition of Canada's Husky Injections Molding Systems by Platinum Equity.

	2017 versus 2016	Q4 2017 versus Q3 2017
Total Deal Value		
$81B	22% ↓	14% ↑
Total Deal Volume		
2,491	1% ↓	0%
Average Deal Size		
$80M	18% ↓	5% ↑

Source: Thomson Reuters

Source: Thomson Reuters and other publicly available sources.

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Deal activity

Global Industrial Manufacturing announced deal value totaled $80.8 billion in 2017, a 22% decrease from 2016. Two thousand, four hundred and ninety-one deals were announced in 2017 compared to 2,520 in 2016, a 1% decrease.

Excluding the TYCO/JCI megadeal in 2016 of $22.6 billion, the Industrial Manufacturing deals market experienced similar levels in 2017 and 2016. However, 2017 experienced a less volatile deals market as deal maker sentiment was less disturbed.

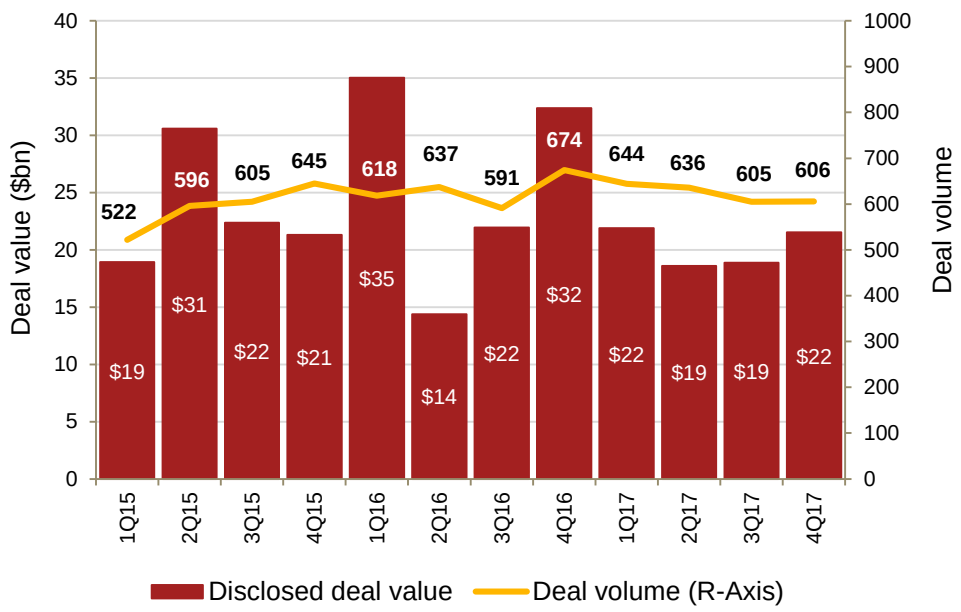
Largest transaction

The announced acquisition of U.S.-based Signode Industrial Group by Crown Holdings Inc. valued at $3.9 billion, was the largest transaction in 2017. Signode is considered a global leader in transit packaging systems and solutions and produces strap, stretch, and protective packaging products. The acquisition expands Crown Holding's global footprint with a total of $2.3 billion in annual sales in 60 countries[1].

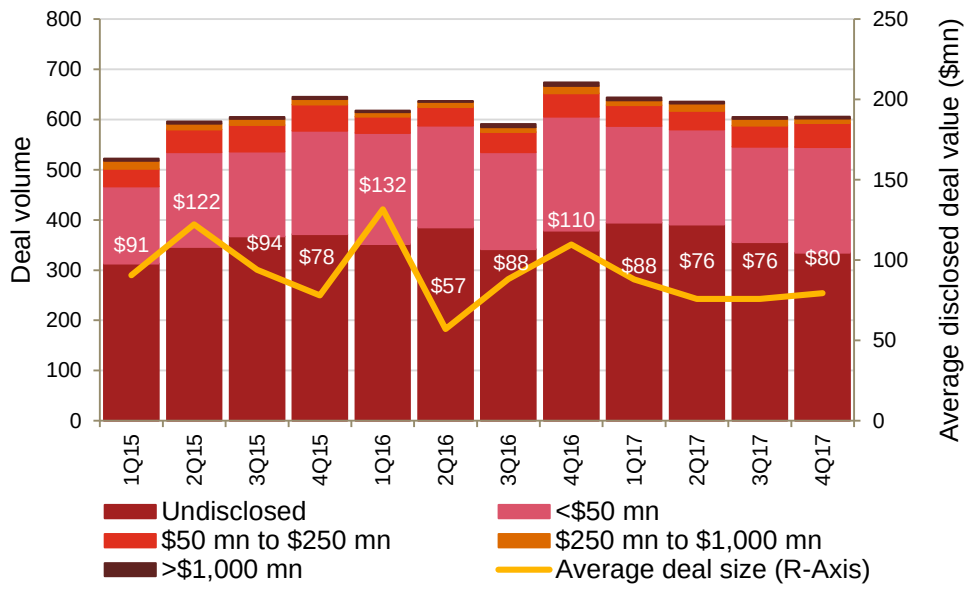
Megadeals[2] ($5 billion and over)

While there were no megadeals in 2017, a handful of large deals (disclosed values greater than $1 billion) show the sector's deal activity is healthy and values remain strong. Notable transactions include Platinum Equity's $3.9 billion acquisition of Husky Injection Molding in Q4 2017, SUEZ's $3.4 billion acquisition of GE's Water & Process Technologies business in Q1 2017, and ABB's $2.6 billion acquisition of GE's Industrial Solutions business in Q3 2017.

Total deal value and volume



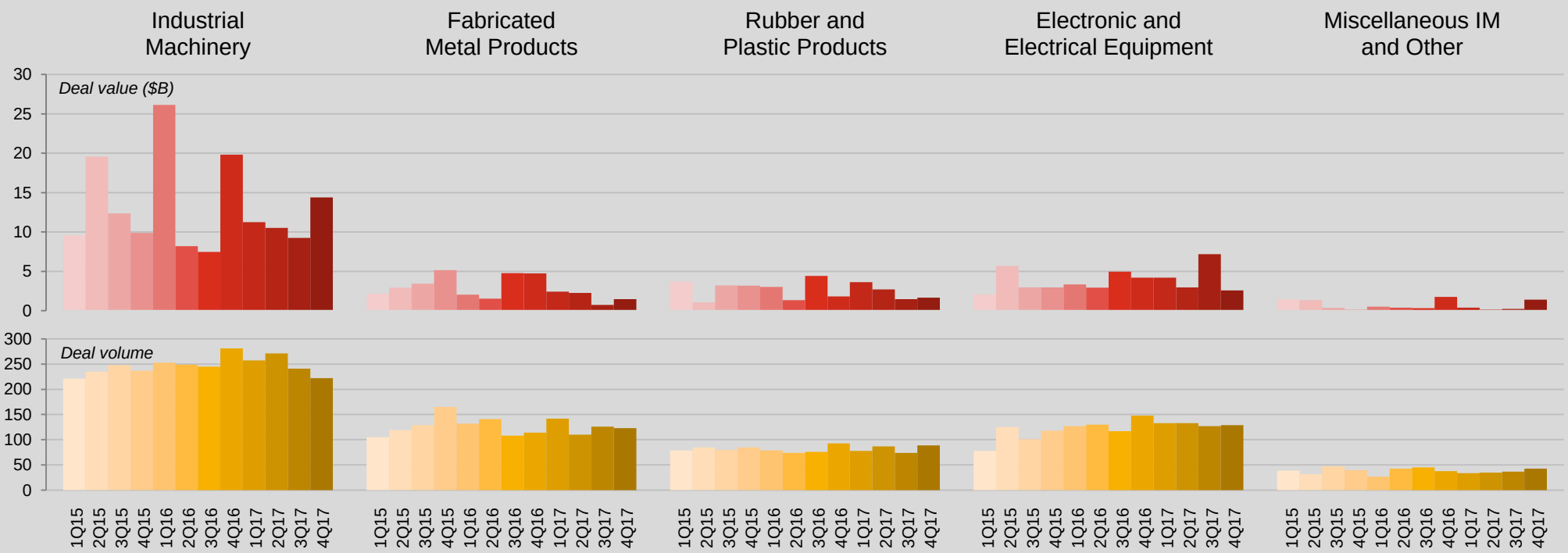
Deals by disclosed value



Source: Thomson Reuters and other publicly available sources

Sector category analysis

Deal value is driven primarily by the Industrial Machinery sub-category. Industrial Machinery deal value spiked in Q4 2017 due to the acquisitions of Signode Industrial Group ($3.9 billion) and Husky Injection Molding Systems ($3.85 billion), while overall 2017 values were down 26% compared to 2016. Within Industrial Machinery there were 991 deals announced in 2017 vs. 1,028 in 2016, a 4% decrease. Eight of the top ten transactions in 2017 were Industrial Machinery deals with total disclosed transaction value of $19.9 billion.



Source: Thomson Reuters and other publicly available sources

[1]Paraphrase from Crown Holdings' press release on Tuesday, December 19, 2017.

[2]Megadeals are defined as deals with disclosed value equal to or greater than $5 billion USD.

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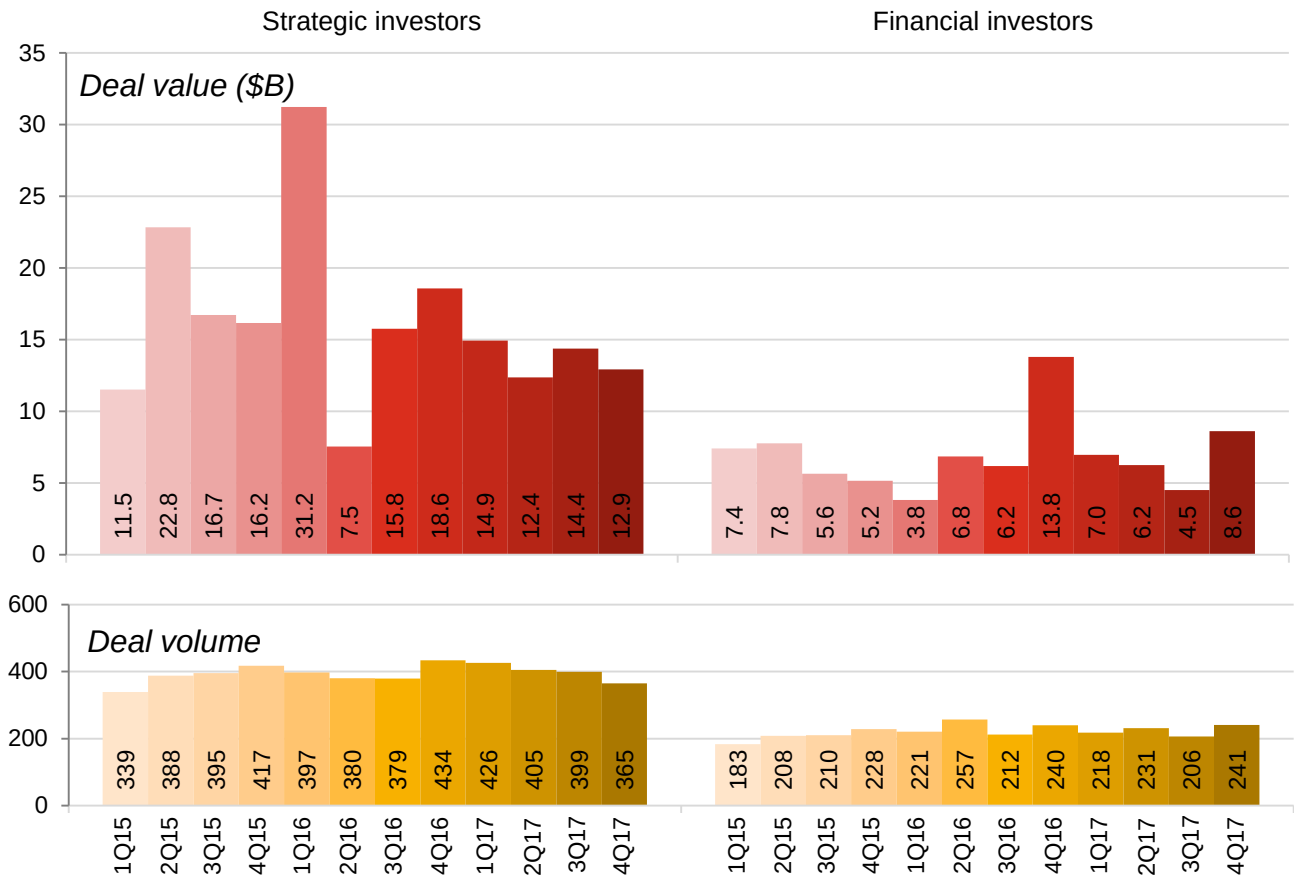
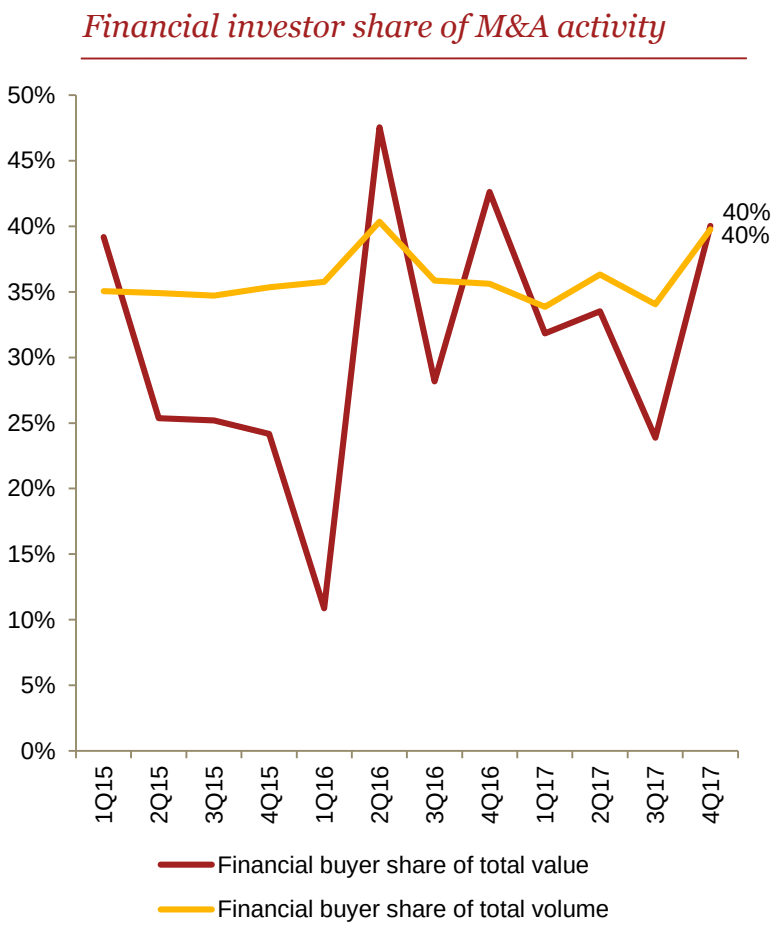
Financial vs. strategic investors

Strategic investors drove transactions in the sector with 67% of deal value and 64% of deal volume in 2017. Although we saw Platinum Equity's $3.85 billion acquisition in Q4 2017, financial investor share of M&A in 2017 decreased by 14% and 4% for both value and volume, respectively, compared to 2016. We believe that continued high seller expectations and competition from strategic investors is making it more challenging for financial investors to get deals done. Financial investors share of M&A activity ended the year at 40% by value and volume.



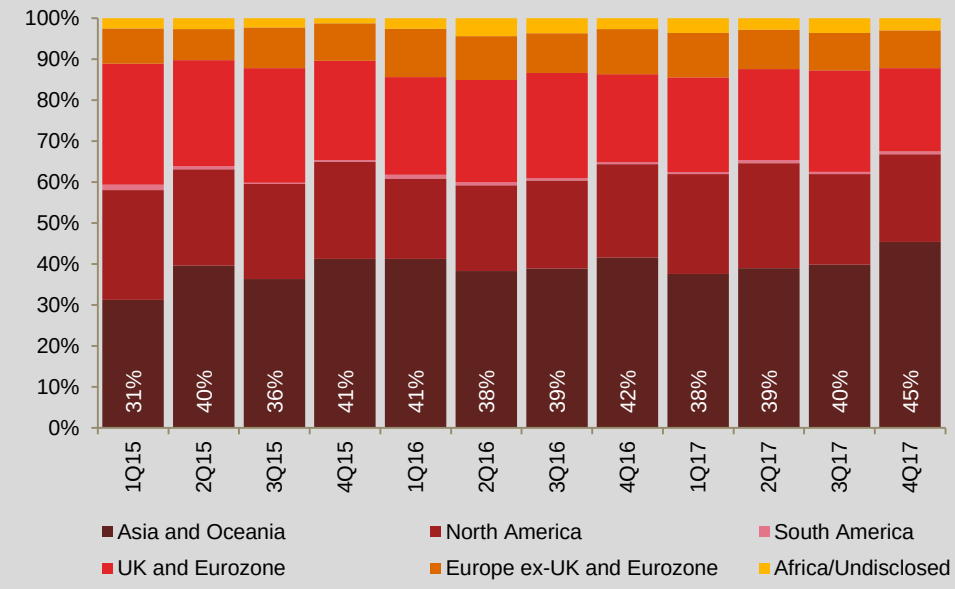


Source: Thomson Reuters and other publicly available sources

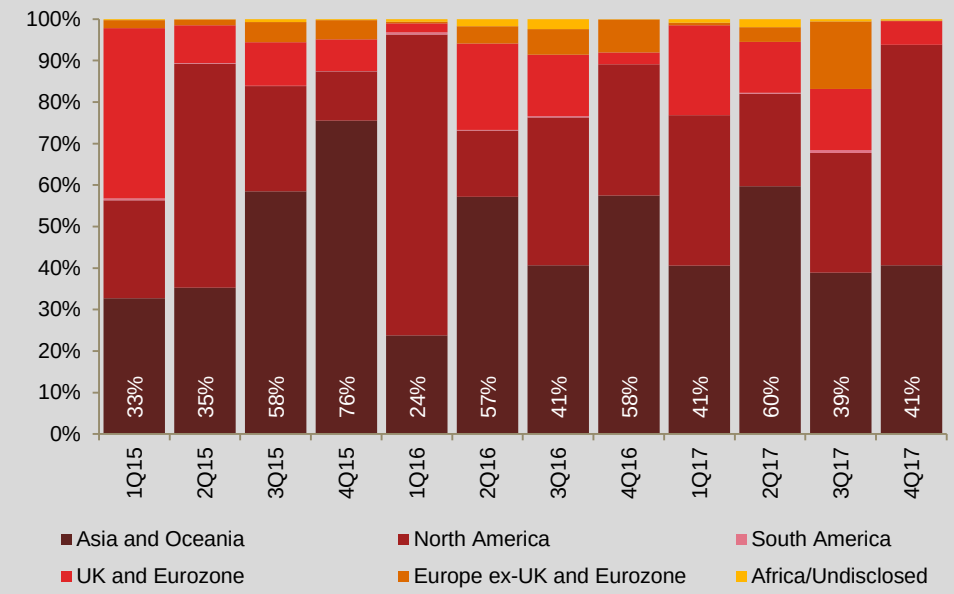
Regional analysis

The Asia and Oceania region remains the most active in deal activity, accounting for 41% of targets and 40% of acquirers in the sector this year. Asia and Oceania also contributes to the largest share of deal value in the sector. China's plans to revive manufacturing and infrastructure have fueled consolidation efforts for local companies. Even so, the North American region continues to have the highest average deal size, as the US attracts foreign investment.

Share of deal volume by acquirer region



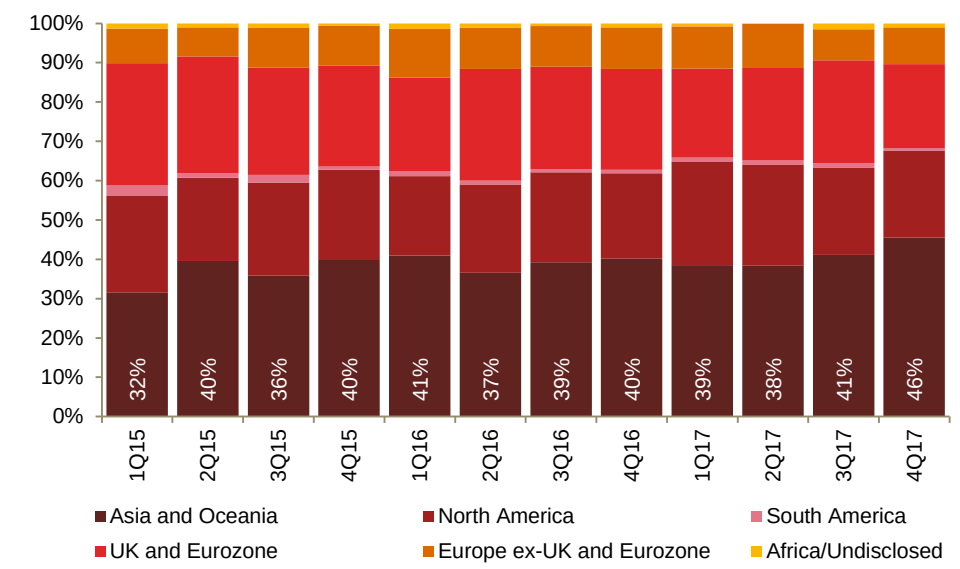
Share of deal value by acquirer region



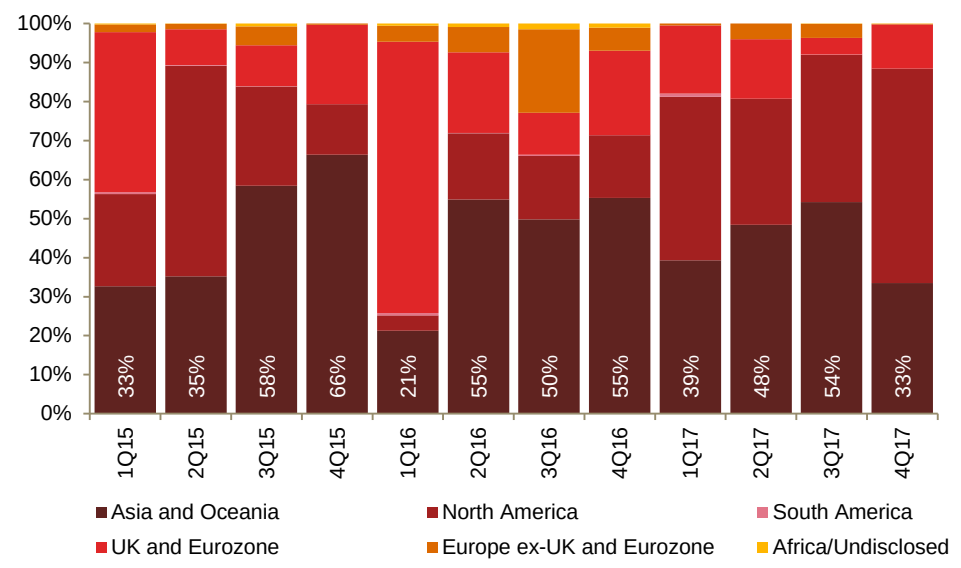
Source: Thomson Reuters and other publicly available sources

Regional analysis (continued)

Share of disclosed deal volume by target region

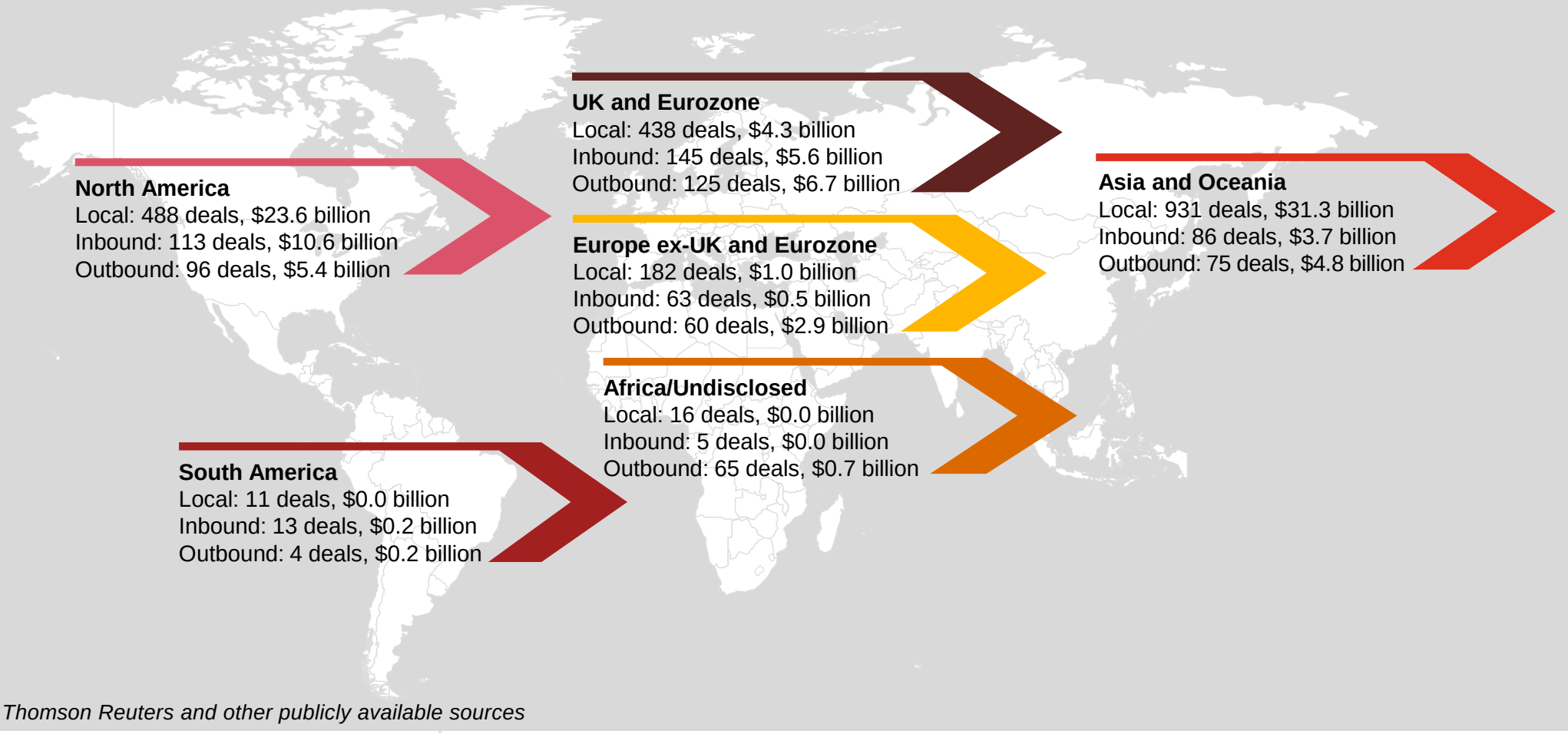


Share of disclosed deal value by target region



Source: Thomson Reuters and other publicly available sources

Industrial Manufacturing deals by region



Source: Thomson Reuters and other publicly available sources

Industrial Manufacturing deals outlook for 2018

Since our last publication, the US administration passed an unprecedented tax bill which will have significant implications as it relates to deal making across virtually all sectors including Industrial Manufacturing. Deal makers will have a new and ever increasing list of important tax considerations that will need to be evaluated when modeling target business valuations.

The decrease in the corporate tax rate to 21% appears to be the largest focus of the tax changes due to its favorable cash flow impacts but other provisions such as interest expense deduction limits, investment cost recovery, earnings repatriation, and other industry-specific items will all need to be thoughtfully considered. Signs suggest tax reform is favorable for the M&A environment and is the catalyst we've been waiting for to sweeten deal maker's appetites.

Deal maker optimism should be high as we head into the new year. We predict 2018 deal activity will be plentiful for the following reasons:

- On the supply side:
  - Numerous large industrials have announced the strategic realignment of their portfolios resulting in future divestitures. This coupled with the lower tax cost to divest will increase the supply of assets for sale in the market.
- On the demand side:
  - GDP is forecast to grow to 3.7% globally and anticipated GDP growth in the US is projected by many to exceed 3% providing a strong foundation for deal making.
  - Record stock market levels and high share values could result in an increase in the use of stock as a currency to get larger deals done.
  - Repatriation and lower corporate tax rates will increase the amount of capital available to market participants to deploy. The "full expensing" provision of the new tax code will likely result in a shift to more asset deals.
  - The increasing pace of technological change and continued need for companies to innovate and digitize to remain relevant remains and will continue to drive M&A as a strategic enabler.

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Top 10 IM deals 2017

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value[1]	Category
12/19/17	Signode Industrial Group LLC	United States	Crown Holdings Inc.	United States	Pending	3,910	Industrial Machinery
12/18/17	Husky Injection Molding Systems Ltd.	Canada	Platinum Equity LLC	United States	Pending	3,850	Industrial Machinery
03/08/17	GE Water & Process Technologies Inc.	United States	Investor Group	France	Completed	3,381	Industrial Machinery
09/25/17	GE Industrial Solutions Inc.	United States	ABB Ltd.	Switzerland	Pending	2,600	Electronic and Electrical Equipment
02/07/17	Mauser Group NV	Germany	BWAY Corp.	United States	Completed	2,300	Rubber and Plastic Products
03/16/17	Scott Technologies Inc.	United States	3M Co.	United States	Completed	2,000	Industrial Machinery
09/08/17	China National Materials Co. Ltd.	China	China National Building Material Co. Ltd.	China	Pending	1,950	Industrial Machinery
08/07/17	Netafim Ltd.	Israel	Mexichem SAB de CV	Mexico	Pending	1,895	Industrial Machinery
05/21/17	Changsha Zoomlion Environmental Industry Co. Ltd.	China	Investor Group	China	Completed	1,685	Industrial Machinery
01/13/17	Hitachi Koki Co. Ltd.	Japan	HK Holdings Co. Ltd.	Japan	Completed	1,283	Industrial Machinery

Top 10 IM deals 2016

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value[1]	Category
01/25/16	Tyco International PLC	Ireland-Rep	Johnson Controls Inc.	United States	Completed	22,660	Industrial Machinery
11/22/16	Calsonic Kansei Corp.	Japan	CK Holdings Co. Ltd.	Japan	Completed	4,404	Industrial Machinery
11/15/16	Hyundai Heavy Industries Co. Ltd.-Robot & Investment Business	South Korea	Shareholders	South Korea	Completed	4,207	Industrial Machinery
10/07/16	Atotech BV	Germany	Investor Group	United States	Completed	3,200	Fabricated Metal Products
08/18/16	Pentair PLC-Valves & Controls Business	Switzerland	Emerson Electric Co.	United States	Completed	3,150	Fabricated Metal Products
06/16/16	Hermes Microvision Inc.	Taiwan	Ai Pu Ssu Lung Co. Ltd.	Taiwan	Completed	3,093	Industrial Machinery
10/12/16	Newell Brands Inc.-Tools Business	United States	Stanley Black & Decker Inc.	United States	Completed	1,950	Industrial Machinery
09/19/16	China High Speed Transmission Equipment Group Co. Ltd.	Hong Kong	Five Seasons XVI Ltd.	Hong Kong	Completed	1,706	Industrial Machinery
10/11/16	LM Wind Power Holding A/S	Denmark	GE Global Holdings Denmark ApS	Denmark	Completed	1,650	Industrial Machinery
07/28/16	Keter Plastics Ltd.	Israel	Investor Group	United Kingdom	Completed	1,529	Rubber and Plastic Products

Top 10 IM deals 2015

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value[1]	Category
05/13/15	Pall Corp.	United States	Danaher Corp.	United States	Completed	13,700	Industrial Machinery
09/01/15	China Shipbuilding Industry Corp.-Assets	China	Fengfan Stock Ltd. Co.	China	Completed	5,189	Industrial Machinery
10/15/15	Shandong Iron & Steel Co. Ltd.-Jinan Branch Assets	China	Shandong Iron & Steel Group Co. Ltd.	China	Completed	2,020	Fabricated Metal Products
01/29/15	The Manitowoc Co. Inc.-Foodservice Business	United States	Shareholders	United States	Completed	1,890	Industrial Machinery
12/03/15	China Railway Group Ltd.-Assets	China	China Railway Erju Co. Ltd.	China	Completed	1,847	Fabricated Metal Products
12/21/15	Hussmann Parent Inc.	United States	Panasonic Corp.	Japan	Completed	1,545	Industrial Machinery
03/11/15	Domino Printing Sciences PLC	United Kingdom	Brother Industries Ltd.	Japan	Completed	1,539	Industrial Machinery
07/13/15	Waddington Group Inc.	United States	Jarden Corp.	United States	Completed	1,350	Rubber and Plastic Products
06/23/15	Zoje Resources Investment Co. Ltd.	China	Investor Group	China	Pending	1,320	Industrial Machinery
04/30/15	Dorma Holding GmbH + Co. KGaA	Germany	Kaba Holding AG	Switzerland	Completed	1,289	Fabricated Metal Products

Source: Thomson Reuters and other publicly available sources
[1] In Million USD

About PwC's Deals Practice

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise industrial manufacturing (IM) companies and IM-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine Industrial Manufacturing industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divesture process, we can help.

For more information about M&A and related services in the global industrial manufacturing industry, please visit **www.pwc.com/us/deals** or **www.pwc.com/us**

About the data

The information presented in this report 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 an SIC code that falls into one of 111 industrial manufacturing industry groups. Certain adjustments have been made to the information to exclude transactions which are not specific to IM or incorporate relevant transactions that were omitted from the SIC industry codes.

This analysis includes all individual mergers, acquisitions, and divestitures for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between January 1, 2015 and December 31, 2017, with a deal status of completed, partially completed, pending, pending regulatory and pending completion, and excludes all rumors and seeking buyers. Additionally, transactions that are spin-offs through distribution to existing shareholders are included.

Percentages and values are rounded to the nearest whole number which may result in minor differences when summing totals.

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