CONTACTS: Sharon Oh / Maggie Nolan
Brainerd Communicators, Inc.
oh@braincomm.com
nolan@braincomm.com
(212) 986-6667

Katherine Waite
PwC US
katherine.l.waite@us.pwc.com
(617) 530-5584

Smaller Deals Drive Industrial Products M&A During Second Quarter, According to PwC US

Uncertain Global Outlook, Eurozone Crisis and China Slowdown are Primary Factors Restraining Overall Volume of Mega Deals

Strategic Investors Continue to Drive Majority of M&A Activity

Balance Sheets Remain Healthy with Ample Liquidity

NEW YORK, August 9, 2012 – The global industrial products (IP) industry experienced a decrease in overall M&A activity during the second quarter of 2012, particularly in Eurozone countries, as management teams turned increasingly cautious in the face of global economic uncertainty, according to a series of quarterly merger & acquisition (M&A) reports released today by PwC US. Mega deals (transactions worth more than $1 billion) remained constrained and overall deal activity was driven by smaller transactions (less than $50 million). Notwithstanding the uncertain outlook, balance sheets remain healthy and liquidity is strong across multiple sectors, boding well for future M&A activity. PwC's IP practice examined activity in the second quarter of 2012 across six sectors: aerospace & defense (A&D), chemicals, engineering & construction, industrial manufacturing, metals and transportation & logistics.

"Despite a number of highly visible deals, the M&A environment across the global industrial products industry remained constrained during the second quarter of 2012, given concerns over multiple macroeconomic issues spanning the ongoing Eurozone crisis, China's slowing economy and uncertainty in the U.S.," said Robert McCutcheon, U.S. industrial products industry leader for PwC. "On a positive note, U.S. companies were relatively active in the transactions arena, including outbound deals, as they seek to tap into niche markets and acquire new technologies. M&A strategies are being driven by the prevalence of strong balance sheets, as well as increasing pressure from shareholders to secure growth outside of saturated and competitive domestic markets. However, management teams are continuing to proceed cautiously as they wait for clarity on multiple issues impacting the global economy."

Across the entire IP industry, there were 173 transactions worth $50 million or more totaling $64.7 billion in the second quarter of 2012, compared to a 228 deals and $76.9 in total value during the same period in 2011. Given the restrained M&A environment, second quarter deal activity included a high proportion of divestitures as companies sought to eliminate underperforming operations, as well as trim their exposure to slowing economies. Local deals continued to represent the vast majority of transactions during the second quarter, and Asia and Oceania regions continued to attract the highest volume of deals, reflecting the overall geographic size and number of emerging markets within the region. A growing number of deals also focused on smaller sub-sector categories, as management teams seek to expand their exposure to better performing, complementary products.

"The focus on smaller, sub-sector deals was most prevalent in the industrial manufacturing sector, where activity increased within the electronic, electrical equipment and fabricated metal arenas, as acquirers seek to tap into demand for energy efficiency and smart grid," continued McCutcheon. "In the A&D sector, we're also seeing an increasing number of defense companies diversify into small industrial businesses, including targets associated with government services, information technology and communications. This trend is in response to the looming U.S. sequestration and the potential impact on defense spending."

There were a total of nine mega deals across the IP industry during the second quarter of 2012, a significant decline from 24 such deals in the previous quarter. For perspective, only the transportation & logistics sector recorded more than two mega deals during the second quarter. There were no mega deals within A&D and only one deal each in the engineering & construction and metals segments. At the current pace, total mega deal volume is expected to fall well below the levels recorded in 2011.

Strategic investors continued to lead activity across the IP industry, reflecting the uncertain macroeconomic picture, as well as the long-term nature of deal ROI horizons. Across all IP sectors, 75 percent of deals that were worth more than $50 million involved strategic investors in the second quarter of 2012. The notable exception was in the engineering & construction sector, where financial investors represented 50 percent of deal volume during the second quarter.

Looking at select sectors, deal activity in the transportation & logistics sector stood out as being very healthy during the second quarter of 2012. There were three mega deals bringing the total to nine mega deals announced during the first half of the year, only two shy of the total number announced for all of 2011. Deal activity was driven by infrastructure, including road and airport concessions, as governments in developing markets seek to boost growth. The U.S. demonstrated strength in sector M&A activity, while China and the Eurozone experienced decreased M&A volume.

Conversely, the global metals industry witnessed a 55 percent sequential decline in deal value during the second quarter of 2012. The reduction in activity was in line with the decrease in metal prices that have occurred since 2011. Second quarter activity was also impacted by the economic downturn across parts of the Eurozone, as well as softness in key end-markets, including construction. Despite the downturn, EBITDA multiples increased, as select players seek deals aimed at vertical integration. In addition, acquirers from emerging and developing economies have remained fairly active, accounting for 65 percent of all deal making during the second quarter. With the government putting an emphasis on steel company consolidation in its most recent Five-Year Plan, China remains a bright spot for activity.

In the industrial manufacturing sector, M&A activity also remained particularly sluggish with overall deal volume hitting a two-year low. Excluding the impact of a major mega deal, which was priced at $11.4 billion, overall second quarter deal value dropped more than 60 percent sequentially and close to 70 percent year-over-year. A&D deal activity also remained subdued during the second quarter of 2012. Acquirers largely focused on smaller deals, with large deals on hold given the expected retrenchment in U.S. defense spending. With U.S. participation in sector M&A decreasing, deal making is also shifting more toward emerging markets, including the BRIC region.

About PwC's Industrial Products practice

PwC's Industrial Products (IP) practice provides financial, operational, and strategic services to global organizations across the aerospace & defense (A&D), business services, chemicals, engineering & construction (E&C), forest, paper, & packaging (FPP), industrial manufacturing, metals, and transportation & logistics (T&L) industries. For more information please visit: www.pwc.com/us/en/industrial-products

About the PwC Network

PwC firms help organizations and individuals create the value they're looking for. We're a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

# # #