Press Release

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PwC Metals Deals Outlook: deals in the doldrums as confidence sinks

- *Metals mergers & acquisitions (M&A) falls to a record low*
- *Upturn prospects remain limited*
- *Highly engineered products, lightweight and advanced metals are a key focus*

Global deal making is breaking record levels but M&A has all but stalled in the metals industry, according to *Metals Deals: Forging Ahead*, PwC's latest annual analysis of the sector.

The total value of completed metals sector deals in the past year fell to the lowest level ever recorded in PwC's annual series of reports. Deal value dropped 32% year on year, from US$16.8bn in 2014 to US$11.4bn in 2015. This is US$3.7bn below the low of 2009, immediately post-credit crunch, and US$4.7bn below the level of 2003, the first year of this metals deal data series.

But, despite the record low in total deal value, deal volume - while well short of peaks reached at the turn of the decade - is broadly comparable with many earlier years.

Jim Forbes, global metals leader at PwC, said:

> "Over the last 12 months, metals M&A has been concentrated on smaller transactions. Many of the few larger deals that we have seen come through have been focused on specialty and engineered metals.
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> "Looking ahead, the environment remains challenging with downside risks increasing and global growth forecasts being adjusted downward. In particular, the ongoing lower for longer oil price and the resulting decrease in steel demand has led to increased uncertainty across the steel industry and steel deals.
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> "Another big factor hitting the sector has been the downward slide in commodities prices: iron ore prices have dropped, reflecting oversupply and a lack of confidence that capacity will be taken out of the market, with prices for copper and zinc also falling. And, although in much less of a decline, aluminium prices have also dropped during 2015 reflecting concerns about an oversupplied market.
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> "What this analysis tells us is that, for the time being at least, metal M&A is likely to remain in the doldrums."

PwC's modelling of deal trends against wider macroeconomic influences suggests a modest rise in announced deal volumes in 2016, with the potential for a bigger upturn in total deal value. It predicts compound annual growth rate (CAGR) of 3.9% in 2016 in announced deal numbers while announced deal value across the metals sector is forecast to grow by 8.7%.

A number of other factors which could influence metals M&A in the year ahead, are also highlighted:

Crisis looms for some companies - Current pricing levels are leaving many companies facing a cash burn. This could result in transactions at bargain prices or even capacity simply evaporating from the market as plants shut without buyers. Further filings for bankruptcy are a distinct possibility.

No end in sight for commodity price turnaround - Iron ore supply surpluses continue to escalate. The outlook for commodity prices in major end markets such as oil and gas is similarly downbeat. Metals prices themselves are not faring any better with an excess of production continuing to overhang the market. The situation is most acutely felt in steel where world prices have plunged amid excess stock from China. But the outlook is little better in aluminium where prices are back to levels seen in the 1990s and close to the sharp low recorded after the 2008 world financial crisis.

China holds the key - A sustained price recovery is unlikely until Chinese production falls and much-needed consolidation takes place. There have been some mill closures in China and the direction of environmental as well as wider economic policy points towards capacity consolidation. But it remains too uncertain to foresee how significant this will be and when it will occur.

Possible consolidation moves in India and Japan - We see pressures for consolidation building in countries such as India and Japan as companies bid to be competitive. We believe that Indian companies may consider pursuing vertical integration opportunities – both forward integration to higher value added products to yield higher realisation, and backward integration to reduce the price of production. In Japan, Godo Steel and Osaka Steel have recently announced takeovers of rival companies and other companies have announced shutdowns. The pressure continues for further consolidation and capacity reduction.

Importance of growth areas greater than ever - The focus of deals on more highly engineered products, lightweight and advanced metals highlights the importance of companies positioning themselves in growth parts of the market, serving sectors such as aerospace and automotive. We expect to see a continued flow of such deals and don't rule out more big moves by outside buyers, such as the one we have seen from Berkshire Hathaway for Precision Castparts. Companies will be equally alert to upturn opportunities in currently depressed end-markets.

Notes to Editors:
The PwC report, *Metals Deals: Forging Ahead* will be available here by 14:00GMT Friday 19 February
https://www.pwc.com/gx/en/industries/metals/publications/metal-deals.html

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