Press Release

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Contact	Hilary Downes, media relations, PwC Tel: 020 7213 4706 | Mobile: 07718 340 113 e-mail: hilary.n.downes@uk.pwc.com

PwC Metals Deals Outlook: buyers and sellers to play a waiting game

- Weak metals deal momentum expected in 2015
- Differing fortunes of aluminium and steel companies will continue in 2015
- Focus will turn to non M&A alliances

London, 24 Feb 2015 -- There will be weak momentum in the metals deals market in 2015 according to a new report from PwC. The report, *Metals Deals: Forging ahead*, predicts that, as in 2014, the lack of convincing, strong and sustainable growth in the global economy will keep metals deals in a low gear, or even stalling in some parts of the world.

Jim Forbes, global metals leader at PwC, said:

> "With the current level of commodity prices and the downward pressure on economic forecasts, we don't expect dealmakers to be rushing to the table in 2015. The deal making that will take place is likely to be driven primarily by specific country, industry or company considerations, rather than the global cycle, the direction of which remains uncertain."

Modelling carried out by PwC predicts that global metals deal volumes will remain subdued, with compound annual growth rate (CAGR) of 1.9% in 2015, compared with 0.6% in 2014. Metals deal values are predicted to grow by 47%. This figure may seem high but it comes off a very low base with deal value in the sector close to the lowest it has been in the past decade. The predicted upturn in deal value is mainly due to a relatively large expected jump in the aluminium price index.

PwC's subdued forecast for 2015 metals deals is strongly affected by the uncertainties stalking the global economy such as the oil price dive, concerns over Chinese growth, currency fluctuations, eurozone recession and the spectre of deflation. Growth in demand for metals in China, the largest global consumer of both steel and iron ore, is expected to follow its 2014 pattern and decline further in 2015. Recoveries in metals demand in Europe, the US and Japan are not anticipated to be strong enough to offset this slowdown.

Low oil prices create both winners and losers...
Continued low oil prices will affect metals deals, particularly those with high oil sector exposure: those with output geared towards consumers markets, such as the automotive industry, are likely to gain. But those focused on pipelines or other oil infrastructure will need to factor in capital spending cutbacks by customers. Similarly, companies supplying steel for large infrastructure projects could face constraints where these are sponsored by governments that are hit by lower oil revenues.

Focus turns to non-M&A alliances...
54% of metals company CEOs plan to partner with other entities this year, according to PwC's 2015 Global CEO Survey. This is a huge increase on 2014's figure of 16%. Their main reasons are to get access to new technologies, new customers or new geographic markets without having to make all of the investments themselves.

A tale of two metals...
The contrasting fortunes of aluminium and steel companies look set to continue into 2015. Much of the steel sector remains in defensive mode whereas there is a much more positive outlook in aluminium. Lower oil and energy prices will benefit the cost side of both sectors but the demand impact will be much more mixed. Any positive impact on demand is more likely to benefit the aluminium sector. Companies in the steel sector are more exposed to the negative impact that will flow from energy industry capital expenditure reductions. Aluminium deal activity is likely to continue to be focused downstream, with companies seeking to make strategic acquisitions to move further away from the commodity end of the value chain.

Notes to editor:

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