PwC: 2012 Manufacturing M&A Surpassed 2011

Amid high uncertainty over the direction of the global economy, the fourth quarter of 2012 saw a slowdown in the number of announced industrial manufacturing transactions. However, despite the reduction in merger and acquisition [1] (M&A) activity during the last quarter, 2012 proved to be a favorable year for dealmaking in the industrial manufacturing [2] space. Year over year, the total number of transactions decreased slightly from 2011 but the value of those deals increased substantially, according to Assembling Value [3], a quarterly analysis of M&A activity in the global industrial manufacturing industry by PwC US [4].

“The M&A market was overshadowed by a variety of factors that made investors uneasy about making long-term commitments to capital expenditures and hiring,” said Bobby Bono [5], U.S. Industrial Manufacturing Leader for PwC. “Some European companies slipped into a recession in 2012 due to the foreign debt crisis, while tax implications of the presidential election and resolution of the fiscal cliff in the U.S. seemed to curb enthusiasm for deal making in the last quarter of the year. Although the level of uncertainty regarding the pace of a global recovery remains elevated, we are cautiously optimistic as strong cash reserves and a rebound in the manufacturing sectors of many nations provides hope for continuation of the recovery in industrial manufacturing M&A.”

Total value of industrial manufacturing transactions (worth $50 million or more) in 2012 reached $77.8 billion, up 24 percent from $62.9 billion in 2011. The fourth quarter of 2012 however, accounted for only a small portion of that total, generating 37 deals for a total deal value of $12.3 billion, compared to 47 deals totaling $28 billion in the third quarter of 2012.

In addition, mega deals (transactions worth more than $1 billion) in 2012

experienced a significant increase, influencing the uptick in deal values for the year, though only two mega deals were announced in the fourth quarter. According to PwC, 2012 ended strongly with 17 mega deals representing $48.1 billion, compared to 10 mega deals in 2011 totaling $28.4 billion in value.

In the fourth quarter of 2012, strategic investors gained significant momentum in announced deals worth more than $50 million, generating more than 90 percent of the transactions in the quarter, and accounted for more than 80 percent of all 2012 deals. While strategic investors diversified their activity across all industrial manufacturing segments, financial investors remained more conservative in their acquisition choices, focusing their efforts predominately on the large industrial machinery segment.

Divestitures remained a major driver of deal activity during the fourth quarter of 2012 and PwC expects that trend to continue as manufacturers adjust their portfolios in accordance with changing growth prospects. Divestitures accounted for 42 percent of the total deal activity in the fourth quarter and 2012 witnessed significantly higher levels than 2011, at 39 and 27 percent respectively.

According to PwC, most of the transactions in the fourth quarter, as well as 2012 overall, were local deals involving targets and acquirers predominately from advanced nations. North America was the most active acquirer region in terms of deals announced, followed by Asia and Oceania, while the United Kingdom and Eurozone region contributed the highest value of the deals in 2012. Of the individual nations, the U.S. remained the leader with 61 acquirers and 60 targets in 2012, which was consistent with PwC's expectations for increased U.S. activity as manufacturers seek pockets of growth and attractive investments for the strong cash reserves on their balance sheets.

"Despite experiencing tepid growth in 2012, U.S. manufacturers have been on a path of restructuring, right-sizing and spinning off, or divesting, non-core businesses, all of which have positively affected the level of M&A activity in 2012," Bono continued. "In addition, the relative maturity of the industry in North America, along with attractive growth prospects in the form of abundant, inexpensive and more environmentally friendly shale gas, is now a game-changer for the global industrial manufacturing space, boosting the M&A outlook for the region."

After an uptick in BRIC countries' M&A activity in the third quarter of 2012, and with the exception of China, which remained active in the fourth quarter, deal activity among the rest of the BRIC nations slowed with 2012 finishing below 2011 levels. Of those nations, there was a decline in all but India, where new export orders, new product launches and strengthening demand resulted in positive growth in purchasing activity for a 45th successive month. Despite generating a lower sequential rate of deal activity in 2012, China remains the most active BRIC nation in terms of deal making and continues to show signs of improvement. PwC believes BRIC deal activity could experience a modest uptick in 2013 as those nations are expected to be the growth engine for the global economy.

For a copy of Assembling Value, PwC's quarterly analysis of M&A activity in the

global industrial manufacturing sector, visit: www.pwc.com/us/industrialproducts *[6].* PwC's Industrial Manufacturing practice *[2] comprises a global network of industry professionals strategically located in more than 30 countries around the world. The practice brings experience, international industry best practices, and a wealth of specialized resources to help solve business issues. PwC US helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms in 158 countries with more than 180,000 people. We're committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting* www.pwc.com/US *[7].*

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