Mega Deals Drive Total Value Of 2012 1Q Industrial Products M&A

PwC

NEW YORK – The global industrial products [1] (IP) industry experienced an increase in the number of mega deals (value of $1 billion or more) in the first quarter of 2012, despite an overall decrease in the volume of deals (valued at $50 million or more) compared to the fourth quarter of 2011, according to a series of quarterly merger & acquisition (M&A) [2] reports released by PwC US [3]. Despite improved balance sheets and liquidity across several sectors, the constrained outlook and continued uncertainty regarding the world economy continued to dampen overall M&A activity. PwC's IP practice examined activity in the first quarter of 2012 across six sectors: aerospace & defense (A&D) [4], chemicals [5], engineering & construction [6], industrial manufacturing [7], metals [8] and transportation & logistics [9].

The total number of mega deals across the combined six sectors increased to 22 during the first quarter of 2012, almost double the 12 mega deals completed in the fourth quarter of 2011. This led to an increase in total deal value among deals worth more than $50 million during the first quarter of 2012 to $80.8 billion, as compared to just under $59.5 billion in the previous quarter. The increase in total value occurred even though the overall volume of deals exceeding $50 million decreased to 153 in the first quarter, from 168 in the fourth quarter of 2011.

Deal value and mega deal activity increased in the industrial manufacturing, metals and transportation and logistics sectors. For deals worth more than $50 million, deal value in the industrial manufacturing sector surged to $15.7 billion in the first quarter, from $11.3 billion in the previous quarter. In the metals industry, the total value of deals (worth more than $50 million) increased to $18 billion in the first quarter, from $15 billion in the fourth quarter of 2011. In addition, deal value worth more than $50 million in the transportation and logistics segment rose to $22.6 billion in the first quarter, from $13.6 billion in the previous quarter. In all three sectors, the number of deals worth more than $50 million decreased sequentially, highlighting the role of mega deal activity in driving total value.

"Overall M&A activity moderated during the first quarter given persistent uncertainty regarding the global economy and an ongoing emphasis to maximize profitability and conserve cash," said Bob McCutcheon, U.S. industrial products industry leader at PwC [10]. "Issues such as concerns over the sovereign debt crisis in Europe and the breadth of the U.S. recovery continue to weigh on the market. On a positive note, total transaction value grew sequentially during the quarter given the resurgence of mega deals across multiple sectors. Bolstered by strong balance sheets and attractive valuations among targets, the uptick in larger transactions was primarily driven by strategic investors who tapped into their cash resources to pursue selective opportunities. Looking ahead, companies that are benefiting from privatization and the infrastructure build-out in emerging markets remain appealing targets, particularly in Latin America and Asia. Given the ongoing focus to expand globally, as well as ample liquidity, we expect strategic players to continue to pursue a prudent approach to M&A in the year ahead."

According to PwC's reports, the Asia and Oceana region remained the most active for deals during the first quarter of 2011, accounting for 46 percent of the total number of deals exceeding $50 million or more across all sectors. This included deals where at least one party was from the region. Europe and North America were the second and third most active regions.

"The industrial manufacturing sector represented a bright spot for M&A activity among U.S. companies during the first quarter," McCutcheon added. "Reversing the recent trend, the U.S. was the most active country in terms of both the volume and value of industrial manufacturing deals during the quarter. The upswing reflects the overall strength and improved outlook for the U.S. economy, in line with the increased sentiment recorded in PwC's first quarter Barometer [11] report. Notwithstanding prevailing caution, we expect M&A activity across the U.S. industrial manufacturing sector to remain healthy in the coming months, supported by an improving business climate and ample cash among industry leaders."

Despite the needs to expand globally to secure new growth opportunities, the pace of local deals continued to represent the majority of transactions during the first quarter, reflecting the cautious outlook. The pace of local deals worth more than $50 million increased to 66.7 percent of deals in the first quarter of 2012 compared to 65.7 percent of deals in the fourth quarter of 2011. At the same time, cross-border deals (worth more than $50 million) decreased slightly to 33.3 percent in the first quarter, from 34.3 percent in the fourth quarter.

Strategic investors continued to lead activity across the IP industry, but financial investors increased their activity levels in the first quarter of 2012. Across all IP sectors, 26.2 percent of deals that were worth more than $50 million involved financial investors in the first quarter, a slight increase from 23.1 percent of such deals in the fourth quarter of 2011. "While the increased participation of financial investors represents a healthy sign for potential valuation appreciation, we believe strategic investors will continue to drive transaction volume given lack of economic visibility," McCutcheon commented.

A breakdown of PwC's analysis of M&A activity and outlook for IP follows:

Aerospace & Defense [12] – After a robust 2011, the A&D sector experienced a decline in deal activity in the first quarter. Cybersecurity, unmanned systems and other defense areas accounted for multiple transactions, and U.S. entities continued to drive larger deals, while non-U.S. companies drove a greater share of smaller and undisclosed deals. Foreign A&D demand is attracting new sector constituents in emerging markets and consequently transactions, particularly at the smaller end of the deal value spectrum. Deal activity in the sector should increase throughout 2012. Commercial OEMs will likely remain active due to ample cash positions driven by the record level of aircraft orders. In addition, as aerospace production increases, vertical integration among suppliers may become necessary to ensure that production targets can be met. Investor pressures to divest slower-growth defense businesses are likely to lead to more spin-offs in 2012 as well.

Chemicals [13] – The volume and value of deal activity declined significantly during the first quarter of 2012. Deal volume was the lowest in three years and deal value was the second-lowest since the recession ended in 2009. The decline reflects concern over sovereign debt issues in the Eurozone, general economic uncertainty, and an expected decline in earnings for many chemicals producers. The business environment among major chemical end-user industries has improved, but many companies have not returned to pre-recession operating levels. Despite the weak M&A environment, mega-deal activity (deals valued at $1 billion or more) increased, with five such transactions, all centered on North American targets, driving nearly $10 billion in value. Looking ahead, strategic buyers continue to build cash positions. Therefore, M&A activity could increase as strategic players seek to acquire growth in the face of continued uncertainty and relatively low valuations.

Engineering & Construction [14] – M&A activity remained weak during the first quarter, with declines in the volume and value of transactions. Deal volume was the lowest in the past 12 quarters. The recovery remains uncertain and investors have largely remained on the sidelines. Construction and construction machinery accounted for the bulk of deals, driven by infrastructure and urbanization needs of emerging markets. Asia dominated activity as Chinese and South Korean companies grew stronger and more active. Governments there are spending on infrastructure, urbanization, water treatment and energy/power. Growth expectations in emerging markets remain greater than those for the developed world. In Brazil, the outlook is positive ahead of The 2014 World Cup and the 2012 Olympics in Rio de Janeiro, as both require significant stadium, infrastructure and transportation projects. Given that organic growth is hard to achieve and the M&A is constrained, indirect consolidation will likely rise in the sector.

Industrial Manufacturing [15] – The overall number of transactions during the first quarter declined slightly, while value for deals over $50 million increased 38.9 percent sequentially. Cautious optimism for the US manufacturing sector was partly offset by fears of a prolonged recession in Europe and a hard landing in China. Corporate profits were solid, but the uncertain outlook led investors to trim acquisitions. Divestiture efforts represented a major contributor as companies restructured their European assets and focused on US targets. Deal activity centered on energy, technological advancement and water treatment. The outlook for the sector remains cautiously optimistic as the worldwide economy continues to recover. The slow but stable growth of the US economy provides a bright spot, while Chinese industrial manufacturing appears to be rebounding, following a period of decline.

Metals [16] – Overall deal value increased substantially during the first quarter with mega-deals (valued at $1 billion or more), comprising more than 68 percent of the value of deals worth $50 million or more. Divestitures represented more than 58 percent of activity, reflecting the importance of trimming nonperforming assets, as metals companies right-size and increase shareholder returns. Asia and Oceania drove overall regional deal value, a trend expected to continue. Europe drove outbound deals, a resurgence pointing to increased backward integration as metals producers seek affordable access to raw materials amid volatile commodity prices. Looking ahead, metals prices are likely to remain volatile, given the changing global demand and high energy prices. However, M&A totals should grow, driven by strategic cash and the desire to restructure in several emerging markets. Balance sheets have remained strong, indicating that potential acquirers are becoming better capitalized, which bodes well for future deals.

Transportation & Logistics [17] – Overall first quarter deal volume approximated the same level as the fourth quarter; although deal values increased significantly. There were five mega deals putting the sector on pace to exceed the 11 mega deals announced last year. Logistics and passenger air modes drove overall deal value, while the shipping deal activity receded. Road concessions contributed to a high level of passenger ground deals. Transportation infrastructure investments gained steam, hitting a historic high as three of the five mega deals involved Brazil's largest airports. In 2012, infrastructure, shipping and logistics will all likely contribute to deal flow. Overcapacity and weak pricing have increased calls for consolidation across the shipping mode. Russian privatizations in shipping, rail and airlines could drive deals as well. Overall transportation and logistics deal activity seems more likely to rise than fall given continued global economic expansion and the secular trend of rising infrastructure concessions.

About PwC's Industrial Products practice

PwC's Industrial Products [1] (IP) practice provides financial, operational, and strategic services to global organizations across the aerospace & defense [4] (A&D), business services [18], chemicals [5], engineering & construction [6] (E&C), forest, paper, & packaging [19] (FPP), industrial manufacturing [7], metals [8], and transportation & logistics [9] (T&L) industries. For more information please visit: www.pwc.com/us/en/industrial-products [20]

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 [21].

Source URL (retrieved on *12/29/2014 - 3:53am*):
http://www.impomag.com/articles/2012/05/mega-deals-drive-total-value-2012-1q-industrial-products-m

Links:
[1] http://www.pwc.com/us/en/industrial-products/index.jhtml
[2] http://www.pwc.com/us/en/transaction-services/index.jhtml
[3] http://www.pwc.com/us/en/index.jhtml
[4] http://www.pwc.com/us/en/industrial-products/aerospace-defense.jhtml
[5] http://www.pwc.com/us/en/industrial-products/chemicals.jhtml
[6] http://www.pwc.com/us/en/industrial-products/engineering-construction.jhtml
[7] http://www.pwc.com/us/en/industrial-products/industrial-manufacturing.jhtml
[8] http://www.pwc.com/us/en/industrial-products/metals.jhtml
[9] http://www.pwc.com/us/en/industrial-products/transportation-logistics.jhtml
[10] http://www.pwc.com/us/en/industrial-products/leadership/robert-mccutcheon.jhtml
[11] http://www.pwc.com/manufacturing-barometer
[12] http://www.pwc.com/us/en/industrial-products/publications/mission-control.jhtml
[13] http://www.pwc.com/us/en/industrial-products/publications/chemical-compounds.jhtml
[14] http://www.pwc.com/us/en/industrial-products/publications/engineering-growth.jhtml
[15] http://www.pwc.com/us/en/industrial-products/publications/assembling-value.jhtml
[16] http://www.pwc.com/us/en/industrial-products/publications/forging-ahead.jhtml
[17] http://www.pwc.com/us/en/industrial-products/publications/intersections.jhtml
[18] http://www.pwc.com/us/en/industrial-products/issues.jhtml
[19] http://www.pwc.com/us/en/industrial-products/forest-paper-packaging.jhtml
[20] http://www.pwc.com/us/en/industrial-products
[21] http://www.pwc.com/
[22] http://www.pwc.com/structure