PwC: Industrial Manufacturing M&A Activity Rebounds

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Overall merger and acquisition [1] (M&A) activity soared in the industrial manufacturing [2] sector during the third quarter of 2012, according to *Assembling Value* [3], a quarterly analysis of M&A activity in the global industrial manufacturing industry by PwC US [4].

Total deal value reached $25 billion, up 32 percent from $19 billion in the previous quarter, and up 150 percent from $10 billion in the third quarter of 2011. It was the highest total transaction value for the industrial manufacturing sector in four years. In addition, the total number of transactions worth more than $50 million increased to 43 in the third quarter, up from 32 in the previous quarter and 34 in the third quarter of 2011. There were six mega deals (transactions worth more than $1 billion) announced during the third quarter, all driven by U.S. acquirers.

Bobby Bono, U.S. industrial manufacturing leader, PwC

"The M&A environment for industrial manufacturing companies improved significantly during the third quarter, even as other manufacturing sectors continued to witness subdued transactional activity due to the uncertain economic outlook," said Bobby Bono [5], U.S. industrial manufacturing leader for PwC. "However, while future industrial manufacturing transaction activity appears promising, a number of macro-economic concerns may curtail near-term activity, including the potential for further economic deterioration, lower levels of new orders and revenues, and a lack of confidence in the direction of global commerce."

Divestitures continued to play a significant role in deal making during the third quarter, which may be considered a sign of ongoing right-sizing, exiting slower growth or more cyclical markets, and moving manufacturing closer to the customer. Domestic manufacturers have spent several quarters restructuring and right-sizing operations, as well as ramping up productivity, which has left them with significant cash reserves on their balance sheets.

"Solid growth in the energy, oil and gas, and green technology sectors, has also stimulated M&A activity in the industrial manufacturing sector, a trend that was evident across all ranges of transactions," added Bono. "During the third quarter, tender offers also continued to gain momentum, and there was a slight uptick in the percentage of companies going private."

In the third quarter of 2012, strategic investors continued to drive deal activity with 77 percent being active in deals worth more than $50 million. Financial investors largely remained on the sidelines during the quarter, although they did participate in four of the ten largest deals.

“Strategic investors have generally maintained healthy balance sheets, which may fuel higher acquisition prices, further supported by the potential to drive future synergies. In fact, while strategic investor activity was spread across all subsectors, financial investors remained more conservative in their acquisition strategies, focusing their efforts predominantly on industrial machinery, which had lower transaction multiples,” added Bono.

The resilience of the U.S. manufacturing sector and the slow, but stable overall economic growth, may have been attractive for strategic, long-term investors. Moreover, the value of North American targets far exceeded the value of targets from any other region, an indication of both the size and maturity of targets from this region and the fairly attractive nature of the North American manufacturing market.

However, while U.S. acquirers drove the value of deals in the third quarter, it was the non-U.S.-affiliated targets and acquirers that continued to generate higher transaction volumes. In addition, after a quiet first half of the year, the rebound in industrial manufacturing deal activity extended to the BRIC (Brazil, Russia, India and China) countries, driven by optimism for the recovery and growth of their respective manufacturing sectors.

“Despite failing to get traction in the M&A arena in the first half of 2012, India generated five deals in the third quarter. Only one of the deals was local, while the remaining four were cross-border deals. The targets were operating in industrial sectors including plastic injection molding machines, electronic transformers and switchgears, and power transmission products,” said Bono. “India’s recovering and expanding manufacturing sector may be one factor in the increase in deal activity. This positive trend was driven by an expansion in output linked to stronger demand.”

The regional distribution of deals in the third quarter reversed many trends established in 2012. While the majority of deals in the first half of the year were local transactions involving developed nations, for the most part, and the U.S. in particular, third quarter activity was dominated by cross-border transactions. While North America continued to be one of the most active regions, Asia and Oceania led the activity in terms of both targets and acquirers. Europe also remained fairly active in the third quarter of 2012 and a larger percentage of transactions worth more than $50 million involved either inbound or outbound deals.

“The uncertainty in the EU region has provided outside acquirers with the opportunity to merge with major competitors at a relatively low cost and eliminate significant peers. At the same time, the transactions announced during the third quarter also involved targets in some of the most stable EU countries, such as Germany, France, Switzerland, Netherlands, and Sweden,” concluded Bono. “The valuations were fairly stable, and none of the targets were distressed. There were also no deals in the periphery, which eliminated a significant portion of the acquirers’ foreign business environment risks.”

While industrial machinery continued to lead overall deal activity with 42 percent of total deals worth more than $50 million, several sub-sectors such as fabricated metal products and electronic equipment showed strength during the third quarter. This is in line with the recent trend whereby the sector is seeing increased activity in smaller sub-sectors. Fabricated metal products generated the second-largest number and largest value of transactions during the third quarter, as the recent growth in fabricated metals' end markets, such as housing, automobile manufacturing and energy, drove the interest in the subsector.

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]*

Links:
[1] http://www.pwc.com/us/en/transaction-services/index.jhtml
[2] http://www.pwc.com/us/en/industrial-products/industrial-manufacturing.jhtml
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