PwC: Industrial Manufacturing M&A Rises

PwC US

NEW YORK – Financial investors in the industrial manufacturing [1] sector stepped off the sidelines in the first quarter of 2013, recording a substantial increase in merger and acquisition [2](M&A) activity. While strategic investors continued to drive deal activity during the first quarter, financial investments were well ahead of the pace for the same period in 2012 and accounted for 39 percent of total transactions compared to just eight percent in the fourth quarter last year, according PwC US [3].

Overall M&A activity slowed in the first quarter of 2013 as announced volume and value were the slowest of any quarter over the past three years. The first quarter recorded 28 transactions worth $50 million or more for a total deal value of $9.3 billion, down 30 percent from the previous quarter, which generated 40 transactions totaling $12.7 billion. The industrial manufacturing sector also witnessed a significant decline in both volume and value from the first quarter of 2012 with 42 deals worth $17.2 billion.

“Given the decline in overall transaction activity during the first quarter, deal valuations dropped below longer-term historical norms, as acquirers focused less on cross-border deals and more on consolidating their local markets, reflecting a more guarded approach to M&A,” said Bobby Bono [4], U.S. Industrial Manufacturing Leader for PwC. “We remain cautiously optimistic about deal activity for the remainder of the year given the potential for companies to gradually shift from a primary focus on cost-cutting and organic expansion initiatives toward more acquisitive growth strategies given the continued global recovery.”

According to PwC, the industrial manufacturing sector recorded two mega deals (transactions worth $1 billion or more) in the first quarter, totaling $5.2 billion. Mega deal activity accounted for 55 percent of total deal value, however, the majority of deals in the first quarter fell into the middle market category (transactions worth $50 million to $250 million). “This trend may continue through the remainder of the year if manufacturing executives continue to focus on strengthening supply chains and core operations while divesting non-core or underperforming assets,” said Bono.

The long-time subsector leader in M&A, industrial machinery led deal activity in the first quarter, recording 46 percent of total deals as European financial acquirers bought local industrial machinery and rubber and plastic product companies through leveraged buyouts. Smaller, more fragmented segments also completed deals in the first quarter including fabricated metals and electronic and electrical equipment, representing 18 and 14 percent of activity respectively. “Although overall M&A activity was weak in the first quarter, targets involved in energy end-markets remained of high interest due to the relatively favorable growth prospects in this sector, ultimately contributing to the growth in industrial machinery acquisitions as the secular trend toward pump-related acquisitions continues," said Bono.

Similar to 2012, the majority of transactions (67 percent) in the first quarter were local deals involving targets and acquirers predominately from advanced nations, given the perception of risk associated with cross border deals. Advanced nation acquirers accounted for 85 percent of the total deals with Asia and Oceania and the UK and Eurozone representing the most active regions, recording 10 transactions each. North America's eight deals drove 70 percent of total deal value for the quarter and the U.S. remained the most active individual nation, accounting for all eight of those deals. The fourth quarter of 2012 experienced limited activity from the BRIC nations and leading into 2013, China continues to be the most active country, representing 100 percent of deal activity in the region.

"As we saw in our Q1 2013 Manufacturing Barometer [5], plans for M&A activity over the next 12 months dropped as views pertaining to the world markets remained cautious," continued Bono. "As a result, we have witnessed a consistent pull back in overseas expansion plans as management teams plan to instead spend more money on research & development, new product launches and information technology as they focus on building market share and boosting revenues in a competitive domestic market. It is clear that companies are keeping their cash closer to home and are waiting for clarity on the world stage before considering international M&A."

For more information on PwC's Deals practice, visit www.pwc.com/us/deals. [2]

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PwC's Industrial Manufacturing practice [1] 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.

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