

# PwC Deals

Global Industrial Manufacturing Deals Insights Q2 2018

## Digital drives M&A to new highs

### Executive summary

Global Industrial Manufacturing M&A results for Q2 2018 displayed persistent optimism from the previous quarter with aggregate disclosed value of \$36.7 billion, which is a 68% increase over Q1 2018, significantly outpacing global cross-sector M&A which only delivered 7% growth in value over the same period. Industrial Manufacturing saw its first megadeal in six quarters in Q2 2018 between Westinghouse Air Brake Technologies and General Electric with a disclosed value of \$11.1 billion. The return of megadeals is being seen across many sectors and regions of the world resulting in megadeals accounting for 50% of global deal value during the first six months of 2018.

Looking at deal volume, there were 545 Industrial Manufacturing deals in Q2 2018. The return of the megadeal coupled with the decline in volume has resulted in average deal size of deals with disclosed values increasing to \$148 million in Q2 2018.

Growth in Industrial Manufacturing M&A in the first half of 2018 has been fueled by US investors who were on the acquiring end of six of the top ten deals. The combination of large corporates rationalizing portfolios, financial buyers looking to deploy capital, strategic investors continued interest in JV transactions, and the influence of US tax reform has created an exceptional environment for M&A.

*“In spite of concerns over a global trade war, US strategic and financial investors are driving the growth in Industrial Manufacturing M&A.”*



Paul Elie,  
US Industrial Manufacturing  
Deals Leader,  
PwC

### Trends and highlights

- Total disclosed deal value rose 68% to \$36.7 billion in Q2 2018, 50% higher than the three-year quarterly average of \$24.4 billion.
- Total deal volume decreased 15% to 545 deals in Q2 2018, 13% lower than the three-year quarterly average of 628 deals.
- Average deal size jumped 83% to \$148 million, 58% higher than the three-year historical average of \$93 million. Deal size appears to have increased across the board, as there were six deals with disclosed value greater than \$1 billion.
- Westinghouse Air Brake's \$11.1 billion merger with GE's transportation business was the largest deal announced this quarter.

Q2 2018	2018 YTD versus 2017 YTD	Q2 2018 versus Q1 2018
Total deal value	↑ 46%	↑ 68%
<b>\$36.7B</b>		
Total deal volume	↓ 8%	↓ 15%
<b>545</b>		
Average deal size*	↑ 41%	↑ 83%
<b>\$148M</b>		

\*Note: Average deal size excludes deals with no disclosed value



# Highlights of Q2 2018 deal activity

## Deal activity

Total disclosed deal value rose 68% to \$36.7 billion in Q2 2018, 50% higher than the three-year quarterly average of \$24.4 billion. Total deal volume decreased 15% to 545 deals in Q2 2018, 13% lower than the three-year quarterly average of 628 deals. Average deal size jumped 83% to \$148 million, 58% higher than the three-year historical average of \$93 million.

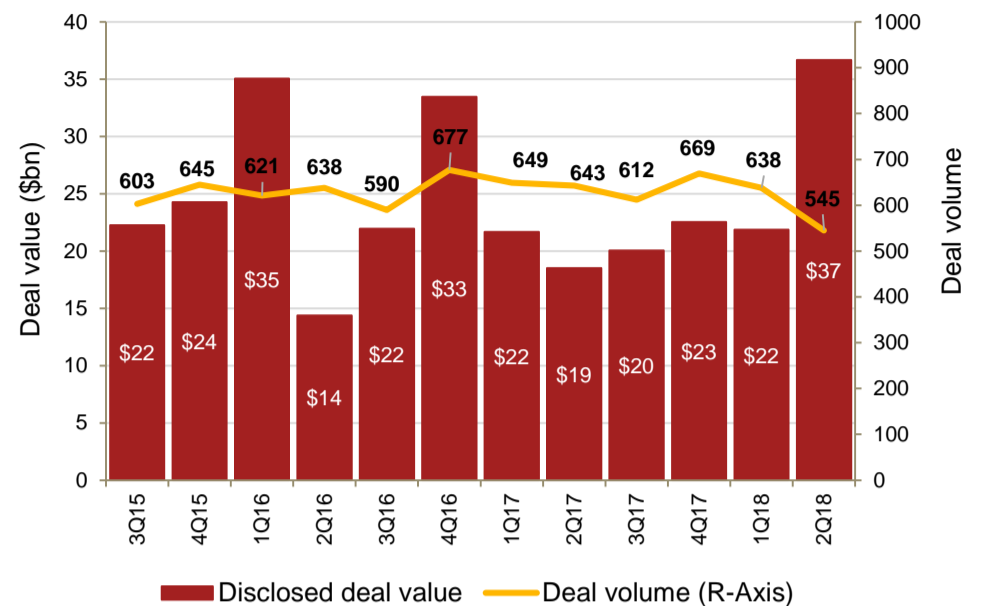
## Largest transaction

In May, Westinghouse Air Brake (Wabtec) announced an \$11.1 billion merger with GE Transportation, with the aim of becoming a diversified, global leader in the future of transportation. With equal FY17 revenues in the space, the merger will position the companies well in the electronics and digital technologies that enable autonomous operations.

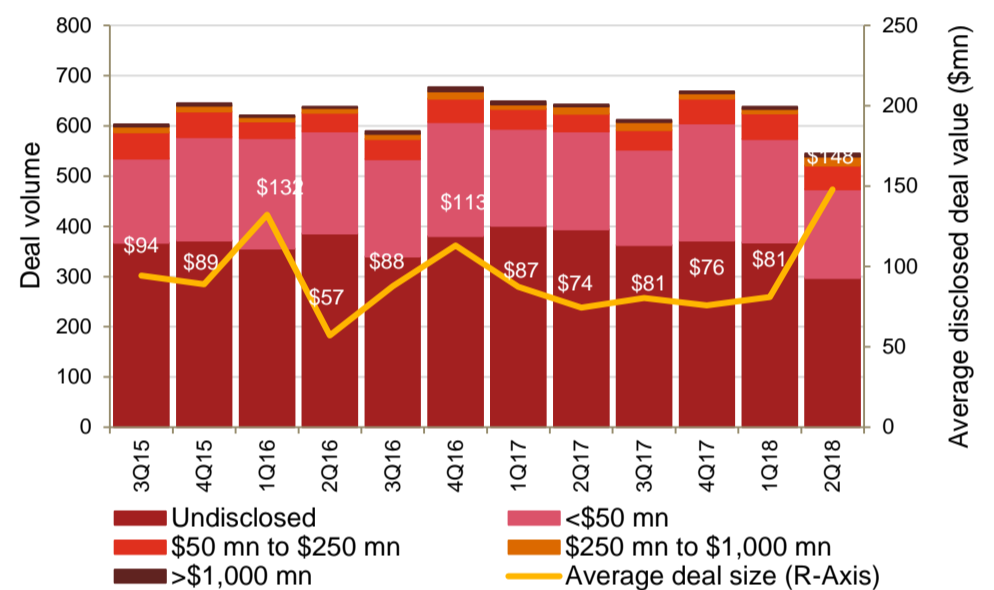
## Megadeals\*

The merger between Westinghouse and GE Transportation was the only megadeal announced so far in 2018. Other notable transactions include Spectrum's \$3.6 billion merger with HRG Group, NOVOLEX Holdings acquisition of Waddington for \$2.3 billion, and a pending sale of electrical and automation division of L&T to Investor Group of France, led by Schneider Electric for \$2.1 billion.

## Total deal value and volume



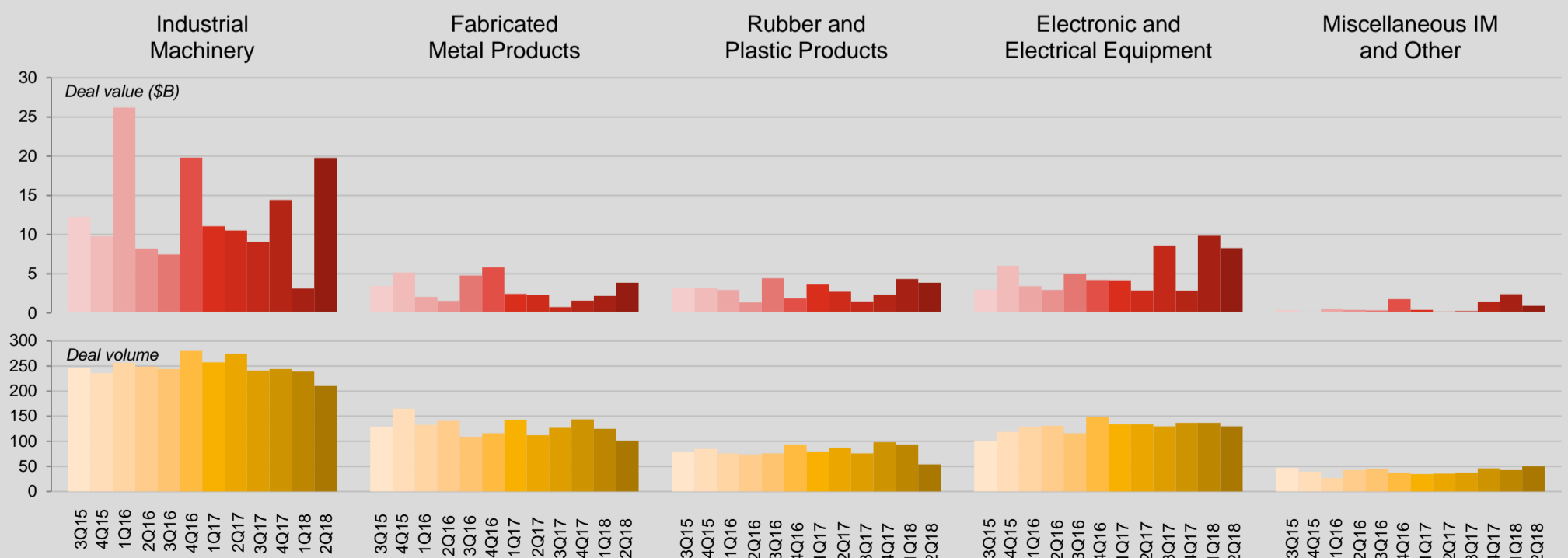
## Deals by disclosed value



Source: Thomson Reuters and other publicly available sources

## Sector category analysis

Deal value for the Industrial Machinery category increased to \$19.8 billion in Q2 2018 due to the merger between Westinghouse and GE. The Electronic and Electrical Equipment category remains the second highest with \$8.3 billion in deal value this quarter. As demand for digital products continues to rise, M&A deal value in these two categories will likely remain strong in following quarters.

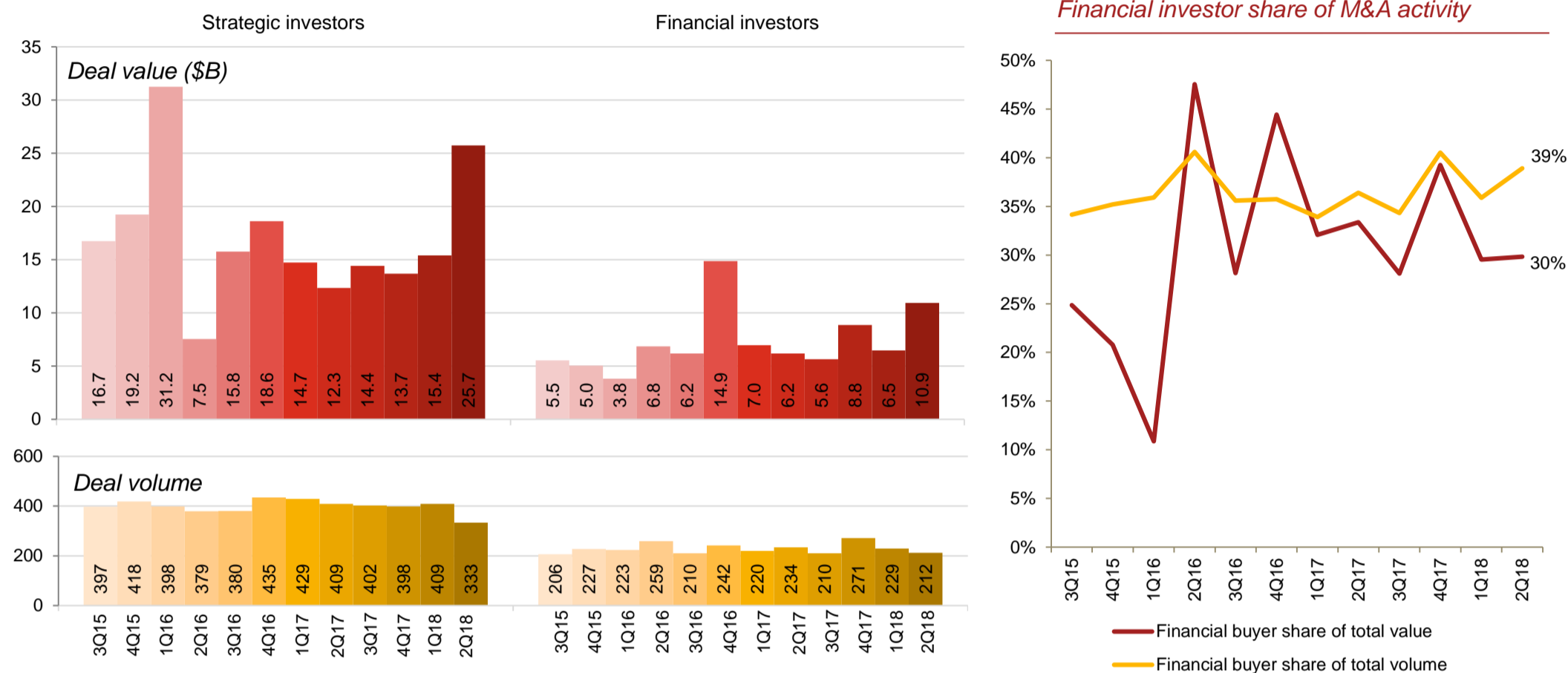


Source: Thomson Reuters and other publicly available sources.  
\*Megadeals are defined as deals with disclosed value equal to or greater than \$5 billion USD.

# Investor and regional deal trends in Q2 2018

## Financial vs. strategic investors

Strategic investors continue to account for the largest share of deal activity in the sector. Seventy percent of value and 61% of volume was attributed to strategic investors in the second quarter of 2018. Financial buyer share of total value increased by almost 70% from last quarter, indicating a positive sentiment from the broader market in this sector.

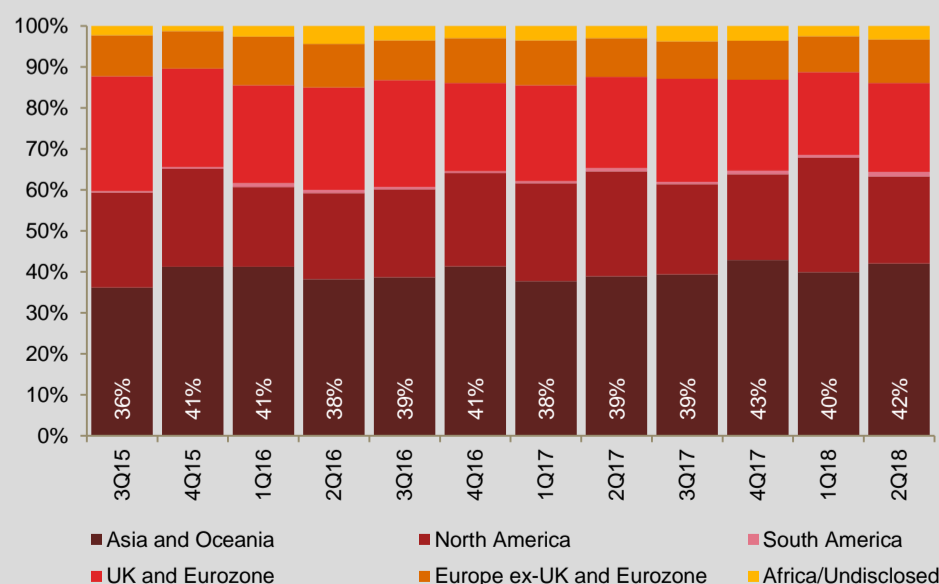


Source: Thomson Reuters and other publicly available sources

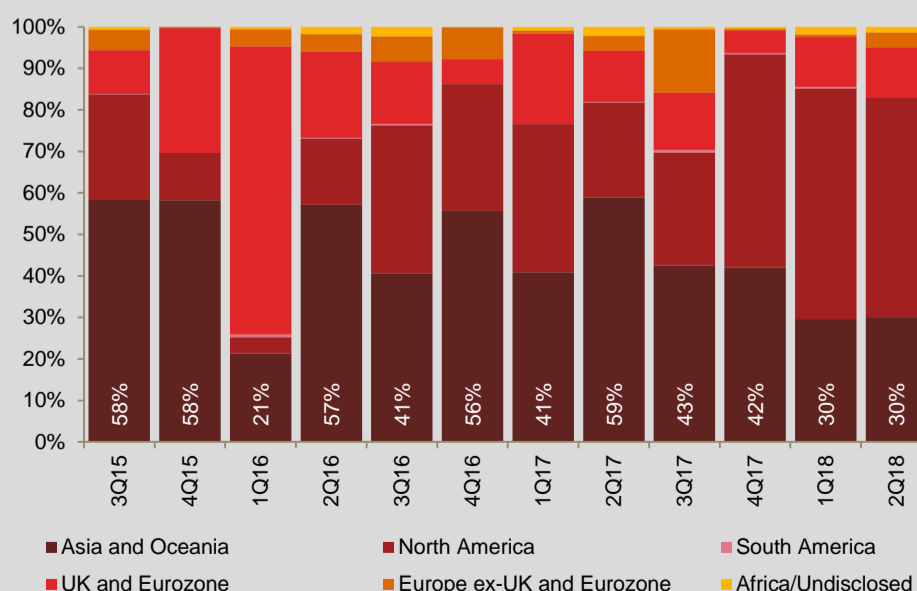
## Regional analysis

The Asia and Oceania region remains the most active in terms of target and acquisition volume, accounting for 41% of buyers and 41% of sellers in the sector year to date. The North America region contributes to the largest share of deal value, accounting for 51% of target value and 54% of acquirer value year to date. We also see a significant pullback in target and acquisition volume in North America this quarter, likely due to escalating risk and uncertainty around global trade.

Share of deal volume by acquirer region



Share of deal value by acquirer region



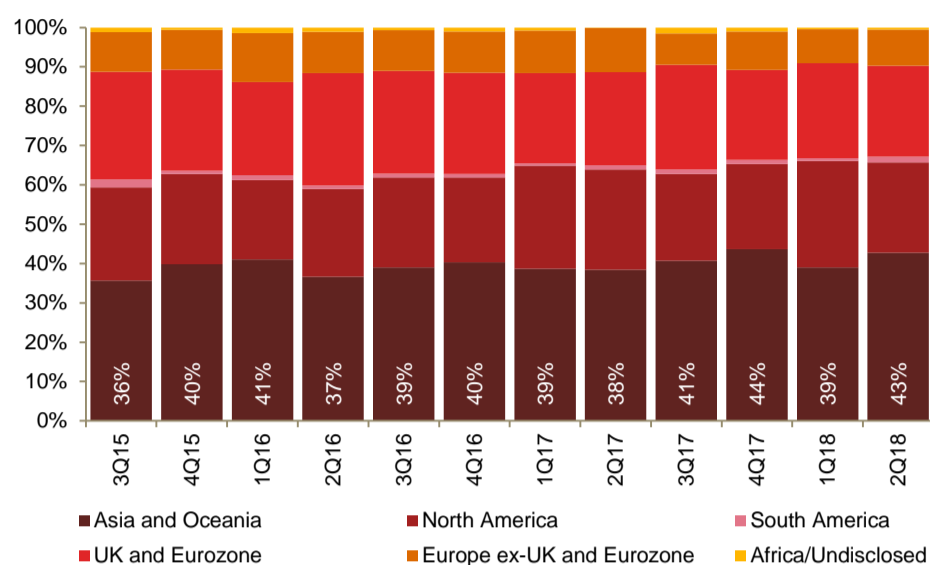
Source: Thomson Reuters and other publicly available sources



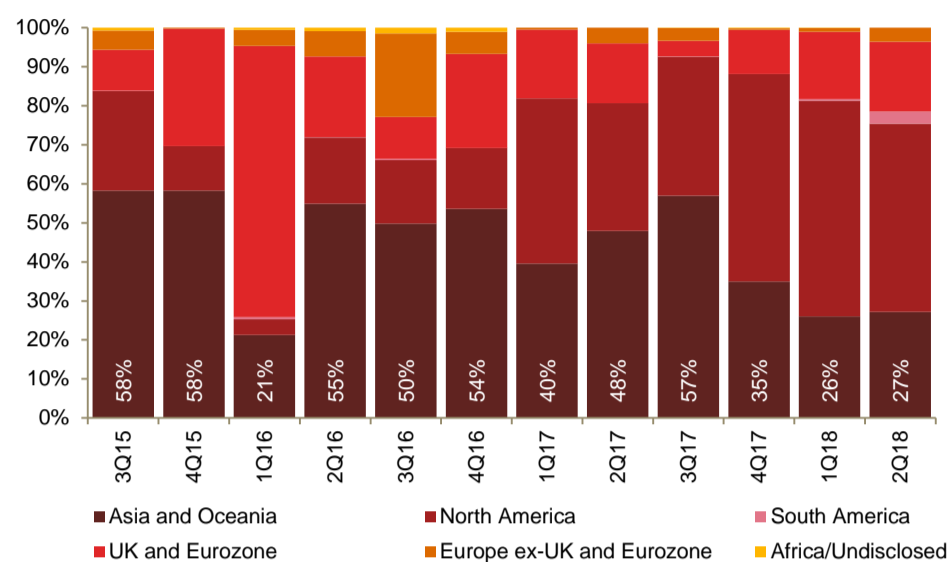
# Regional deal trends (cont.) and Outlook

## Regional analysis (continued)

Share of disclosed deal volume by target region

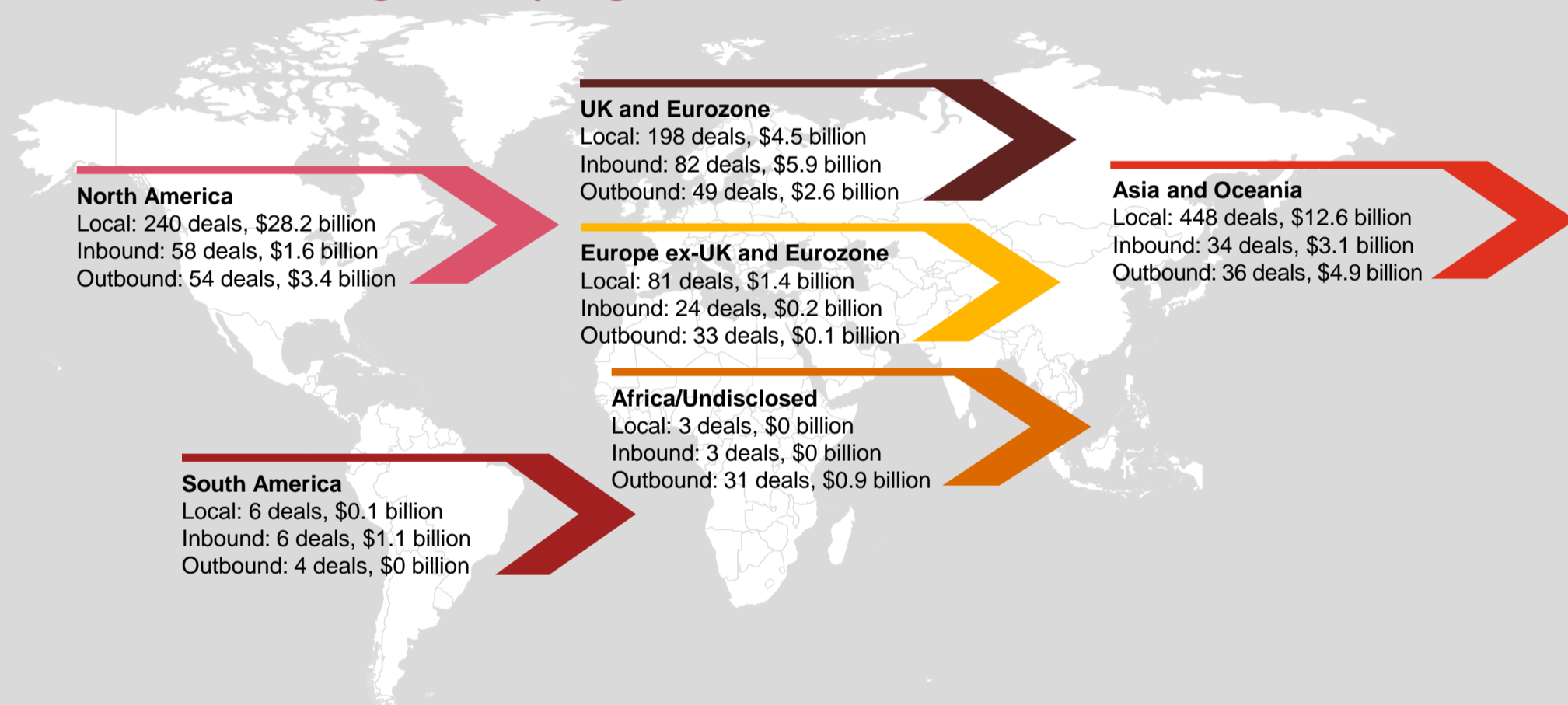


Share of disclosed deal value by target region



Source: Thomson Reuters and other publicly available sources

## Industrial Manufacturing deals by region 2018 YTD



Source: Thomson Reuters and other publicly available sources

## Industrial Manufacturing deals outlook for the second half of 2018

The megadeal between Westinghouse and General Electric during Q2 2018 may indicate the beginning of the ramp up of megadeals in Industrial Manufacturing we had anticipated coming into 2018. Megadeals have played a significant factor in global cross-sector M&A, accounting for approximately 50% of aggregate deal value during the first six months of the year.

The US continues to be the driver of M&A activity within Industrial Manufacturing, however, several regions including Asia and Oceania, UK and Eurozone, and Africa saw significant increases in deal value in Q2 2018, which may indicate the positive outlook on deals is becoming more global.

In spite of the concern over a global trade war, we believe the positive signs seen to date in the M&A market coupled with the strong global economy outlook will continue to foster a healthy deal-making environment for the remainder of 2018.

We believe deal makers should continue to be bullish as we enter the second half of 2018 for the following reasons:

- On the supply side:
  - Last year, numerous large industrials announced the strategic realignment of their portfolios for a variety of reasons. We are beginning to see those assets make their way to the market. This coupled with the lower tax cost to divest will likely increase the supply of assets for sale in the market.
- On the demand side:
  - GDP is forecasted to grow to 3+% globally and anticipated GDP growth in the US is projected by many to be up to 3% providing a strong foundation for deal making.
  - High share values may be a catalyst for the use of stock as a currency to get larger deals done.
  - Repatriation and lower corporate tax rates will increase the amount of capital available to market participants to deploy. The “full expensing” provision of the new tax code will likely result in a shift to more asset deals.
  - The increasing pace of technological change and continued need for companies to innovate and digitize to remain relevant remains and will continue to drive M&A as a strategic enabler.

# Top deals 2018 - 2016

## Top 10 IM deals 2018

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value <sup>1</sup>	Category
05/21/18	General Electric Co.-Transportation Business	United States	Westinghouse Air Brake Technologies Corp.	United States	Pending	11,100	Industrial Machinery
02/26/18	HRG Group Inc.	United States	Spectrum Brands Holdings Inc.	United States	Pending	3,623	Electronic and Electrical Equipment
05/04/18	Waddington Group Inc.	United States	NOVOLEX Holdings Inc.	United States	Completed	2,300	Rubber and Plastic Products
05/01/18	Larsen & Toubro Ltd.-Electrical & Automation Division	India	Investor Group	France	Pending	2,107	Electronic and Electrical Equipment
01/16/18	Spectrum Brands Holdings Inc.-Global Battery & Lighting Business	United States	Energizer Holdings Inc.	United States	Pending	2,000	Electronic and Electrical Equipment
03/19/18	Fenner PLC	United Kingdom	Compagnie Generale des Etablissements Michelin SCA	France	Completed	1,669	Rubber and Plastic Products
01/31/18	Ply Gem Holdings Inc.	United States	Clayton Dubilier & Rice LLC	United States	Completed	1,502	Miscellaneous IM and Other
04/26/18	ZKW Group GmbH	Austria	LG Group	South Korea	Pending	1,337	Electronic and Electrical Equipment
04/24/18	Whirlpool Sa-Embraco Compressor Business	Brazil	Nidec Corp.	Japan	Pending	1,080	Industrial Machinery
05/18/18	Taylor Co.	United States	The Middleby Corp.	United States	Completed	1,000	Industrial Machinery

## Top 10 IM deals 2017

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value <sup>1</sup>	Category
12/19/17	Signode Industrial Group LLC	United States	Crown Holdings Inc.	United States	Completed	3,910	Industrial Machinery
12/18/17	Husky Injection Molding Systems Ltd.	Canada	Platinum Equity LLC	United States	Completed	3,850	Industrial Machinery
03/08/17	GE Water & Process Technologies Inc.	United States	Investor Group	France	Completed	3,381	Industrial Machinery
09/25/17	Ge Industrial Solutions Inc.	United States	ABB Ltd.	Switzerland	Pending	2,600	Electronic and Electrical Equipment
02/07/17	Mauser Group NV	Germany	BWAY Corp.	United States	Completed	2,300	Rubber and Plastic Products
03/16/17	Scott Technologies Inc.	United States	3M Co.	United States	Completed	2,000	Industrial Machinery
09/08/17	China National Materials Co. Ltd.	China	China National Building Material Co. Ltd.	China	Completed	1,950	Industrial Machinery
08/07/17	Netafim Ltd.	Israel	Mexichem SAB de CV	Mexico	Completed	1,895	Industrial Machinery
05/21/17	Changsha Zoomlion Environmental Industry Co. Ltd.	China	Investor Group	China	Completed	1,685	Industrial Machinery
01/13/17	Hitachi Koki Co. Ltd.	Japan	HK Holdings Co. Ltd.	Japan	Completed	1,283	Industrial Machinery

## Top 10 IM deals 2016

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value <sup>1</sup>	Category
01/25/16	Tyco International PLC	Ireland-Rep	Johnson Controls Inc.	United States	Completed	22,660	Industrial Machinery
11/22/16	Calsonic Kansei Corp.	Japan	CK Holdings Co. Ltd.	Japan	Completed	4,404	Industrial Machinery
11/15/16	Hyundai Heavy Industries Co. Ltd.-Robot & Investment Business	South Korea	Shareholders	South Korea	Completed	4,207	Industrial Machinery
10/07/16	Atotech BV	Germany	Investor Group	United States	Completed	3,200	Fabricated Metal Products
08/18/16	Pentair PLC-Valves & Controls Business	Switzerland	Emerson Electric Co.	United States	Completed	3,150	Fabricated Metal Products
06/16/16	Hermes Microvision Inc.	Taiwan	Ai Pu Ssu Lung Co. Ltd.	Taiwan	Completed	3,093	Industrial Machinery
10/12/16	Newell Brands Inc.-Tools Business	United States	Stanley Black & Decker Inc.	United States	Completed	1,950	Industrial Machinery
09/19/16	China High Speed Transmission Equipment Group Co. Ltd.	Hong Kong	Five Seasons XVI Ltd.	Hong Kong	Completed	1,706	Industrial Machinery
10/11/16	LM Wind Power Holding A/S	Denmark	GE Global Holdings Denmark ApS	Denmark	Completed	1,650	Industrial Machinery
07/28/16	Keter Plastics Ltd.	Israel	Investor Group	United Kingdom	Completed	1,529	Rubber and Plastic Products

Source: Thomson Reuters and other publicly available sources  
<sup>1</sup> In Million USD

## ***About PwC's Deals Practice***

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise industrial manufacturing (IM) companies and IM-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine deep health services industry skills with local market knowledge virtually anywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process, we can help.

For more information about M&A and related services in the global industrial manufacturing industry, please visit [www.pwc.com/us/deals](http://www.pwc.com/us/deals) or [www.pwc.com/us](http://www.pwc.com/us)

## ***About the data***

The information presented in this report is an analysis of deals in the global industrial manufacturing industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have an SIC code that falls into one of 111 industrial manufacturing industry groups. Certain adjustments have been made to the information to exclude transactions which are not specific to IM or incorporate relevant transactions that were omitted from the SIC industry codes.

This analysis includes all individual mergers, acquisitions, and divestitures for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between July 1, 2015 and June 30, 2018, with a deal status of completed, partially completed, pending, pending regulatory and pending completion, and excludes all rumors and seeking buyers. Additionally, transactions that are spin-offs through distribution to existing shareholders are included.

Percentages and values are rounded to the nearest whole number which may result in minor differences when summing totals.