



Deloitte.

2015 Manufacturing and
Industrials M&A Predictions
Cautiously optimistic

December 2015

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Foreword

Welcome to the sixth edition of Deloitte's Manufacturing and Industrials M&A Predictions, which examines M&A sentiment in the in sector as 2015 draws to a close.

This edition was compiled in the months of November and December 2015. The listed companies who participated in the survey on this occasion have a combined market cap of approximately £350bn.

As reported in the latest Deloitte M&A Index, Europe has been the centre of global cross-border deals, with European companies participating in 48% of all announced deals globally. The UK remains a preferred destination for cross-border inbound M&A with UK companies attracting investments mainly from the US, Japan, China and other European geographies including some multi-billion pound deals.

Looking forward, the respondents to our survey shared cautiously positive views, with the majority feeling either neutral/positive regarding the financial prospects for the sector and expecting an increase in M&A activity over the next 12 months, though there has been a moderation of views on the prospects for the sector since our spring survey. In terms of financing for acquisitions, external debt continues to increase in popularity as a source of financing, although recent moves in the debt market suggest this trend is likely to moderate, or even reverse, in 2016.

In this edition we have examined trends over the last eighteen months by mapping against our previous editions, and drawing out some of the themes from this period. Key questions addressed in this issue include: How have expectations for M&A activity developed over time? Has there been significant change in M&A strategies during the period?

We hope you find the results and Deloitte's combined industry and M&A views make this an interesting read.

The M&A Manufacturing and Industrials team

Key highlights

Manufacturing Q1-Q3 2015 vs Q1-Q3 2014

Manufacturing



Volume:

247 (230)



Values (\$bn):¹

17.3 (12.5)



Note 1: Deal values relate to transactions whose values were disclosed publicly (84 and 83 transactions in Q1-3 2014 and 2015 respectively.)

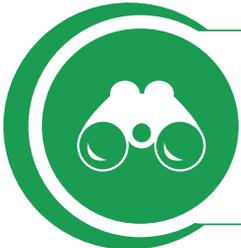
Source: Deloitte Q1-Q3 2015 M&A Update – UK



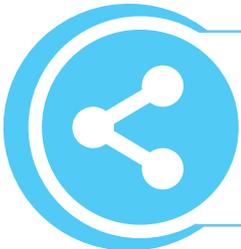
88% describe themselves as acquisitive, of whom 35% say they are very acquisitive and actively looking for deals



59% of respondents are expecting increased M&A activity in their sector in the next 12 months.



47% are optimistic for the sector's financial prospects in the next 12 months, reflecting a more moderate view when compared to spring (when 83% had an optimistic view)



71% of respondents anticipate deal multiples will remain broadly unchanged in the next 12 months, which also reflects a more balanced outlook compared to spring, when many were expecting multiples to rise

Commentary



Duncan Johnston

Partner – Transaction Services, Financial Advisory Manufacturing and Industrials Lead

Duncan Johnston, our Financial Advisory lead for manufacturing notes “Manufacturing deal volumes are up against prior year and we expect this trend to continue. Many of our clients are expecting greater M&A activity in the sector over the next twelve months. The key question will be the quality of businesses being sold and whether recent developments in the debt market mean a change in the availability and cost of debt financing.”



Mark Adams

Corporate finance
Partner – Advisory, Industrials and UK Industry Leader for Chemicals

Mark notes that “M&A sentiment across the industrials sector as a whole, remains upbeat with a shortage of assets continuing to fuel pricing.” Mark sees a similar environment within chemicals where “appetite remains very strong, with a long list of corporates aggressively pursuing M&A.”

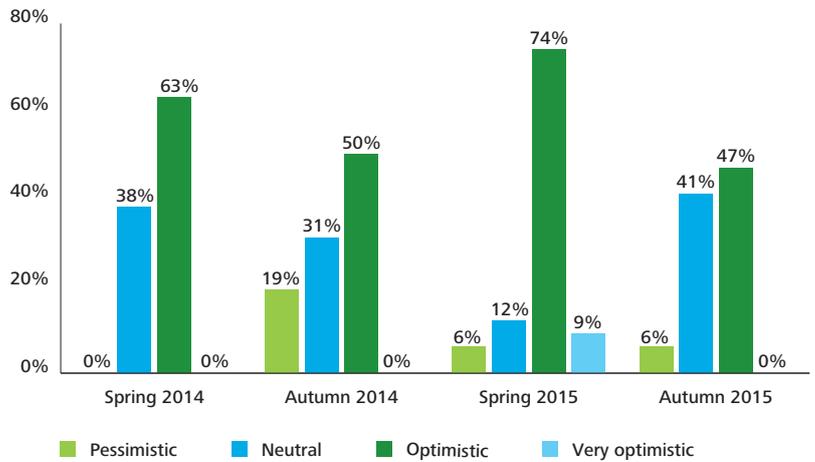
Our M&A Predictions

We asked our panel of CEOs, CFOs and M&A professionals in Industrial and Manufacturing businesses questions covering the current economic environment, deal drivers, valuations and key themes of successful deals and re-financings.

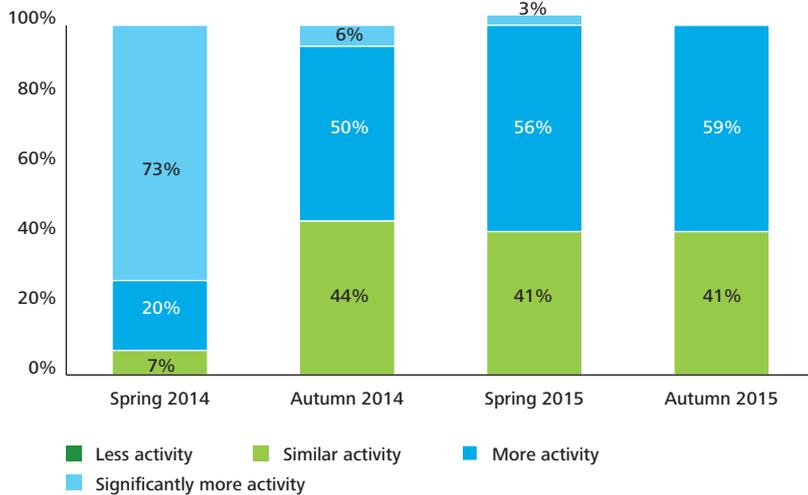
The M&A environment

Whilst still positive, views on the sector's financial outlook are more balanced now (47% optimistic) compared to the optimism of the spring survey (83% optimistic or very optimistic).

How do you feel about the financial prospects for your sector in the next 12 months?



How do you feel about M&A activity for your sector in the next 12 months?

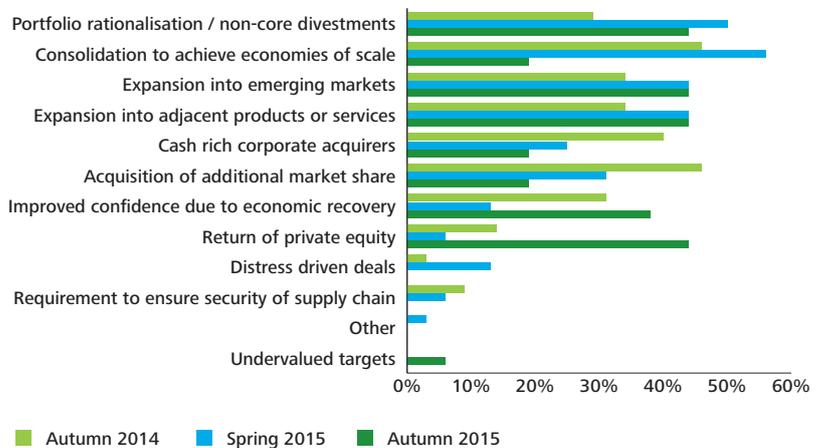


M&A sentiment has remained relatively stable since the last autumn survey, with 59% of respondents anticipating more activity in the sector.

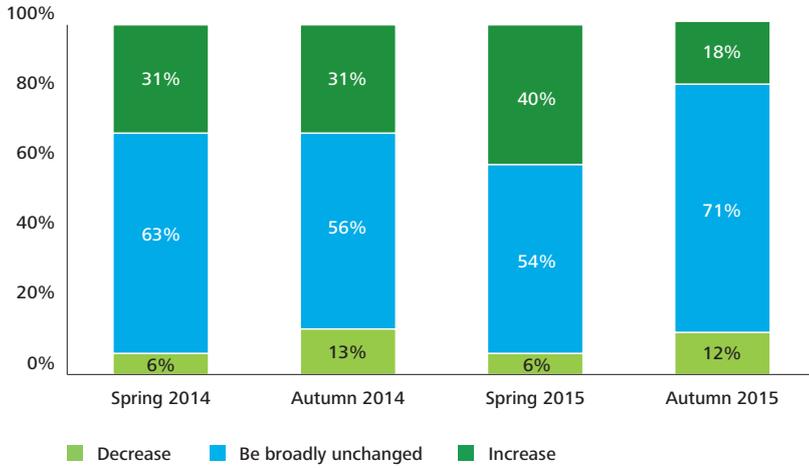
Similar to our last survey respondents see portfolio rationalisation, expansion into emerging markets and adjacent products and services as the key drivers of M&A.

In contrast to our earlier surveys respondents consider that private equity will play a major role in all deal – making over the next year, replacing industry consolidation as a key driver of M&A activity.

What are the three main drivers of M&A activity for your sector in the next 12 months?



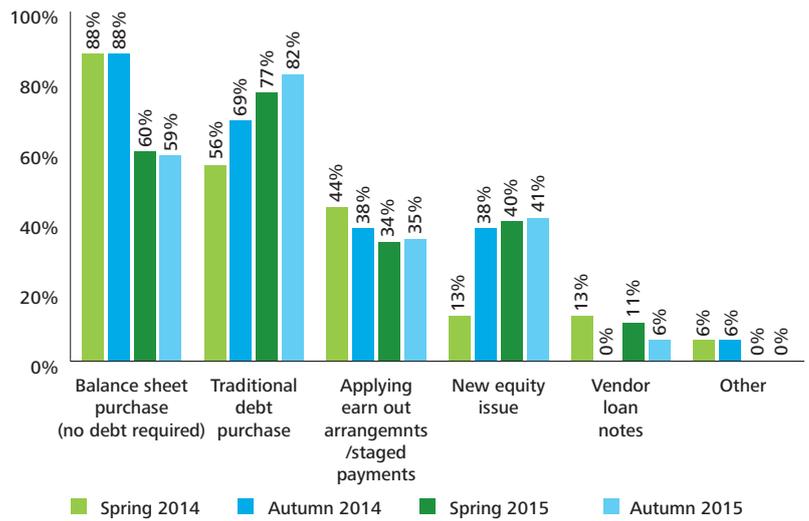
Deal multiples for companies in your sector in the next 12 months will:



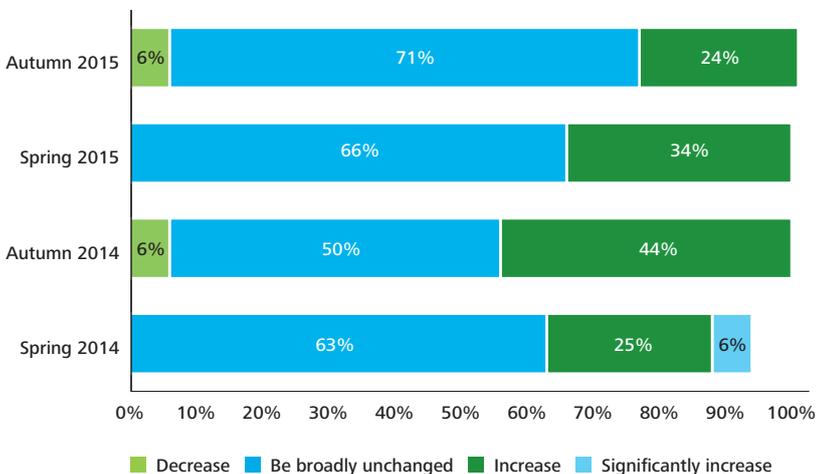
Deal multiples are expected to remain broadly constant over the next 12 months. The net 6% expecting an increase (those expecting an increase less those expecting a reduction) reflects a moderation since the net 34% that expected an increase in spring.

Balance sheet and traditional debt remain the dominant preferences as the most popular sources of finance.

What sources of deal finance will be most popular in your sector in the next 12 months?



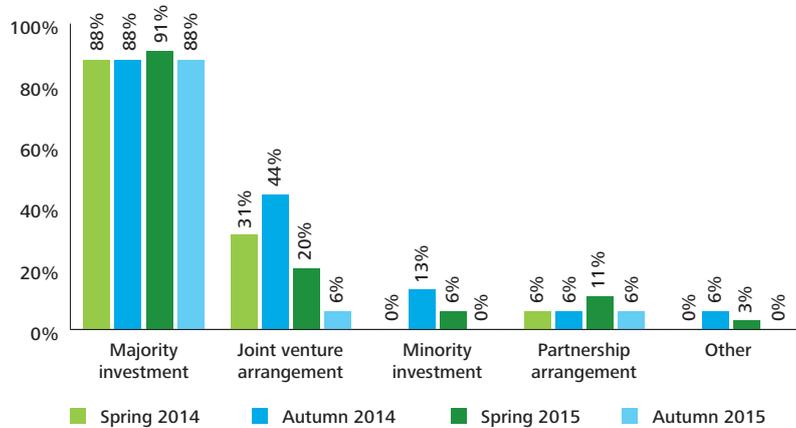
Availability of debt finance for deals in your sector in the next 12 months will:



Optimism remains over the future availability of debt finance, although the 24% proportion of respondents expecting availability to increase represents a clear moderating of expectations when compared to our last two surveys.

Strategy and origination

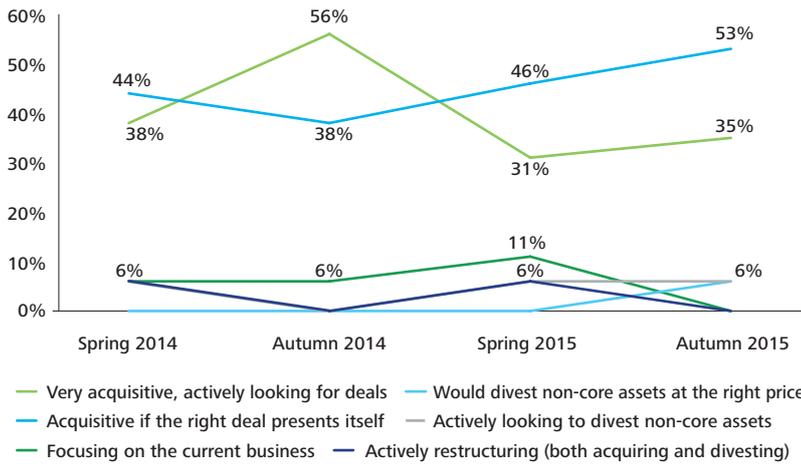
In your view, what will be the most popular investment strategy in your sector in the next 12 months?



Majority investments continue to be viewed as the most common investment strategy by our respondents.

Interestingly the attractiveness of joint venture arrangements appear to have declined significantly. Only 6% of our respondents selected this option.

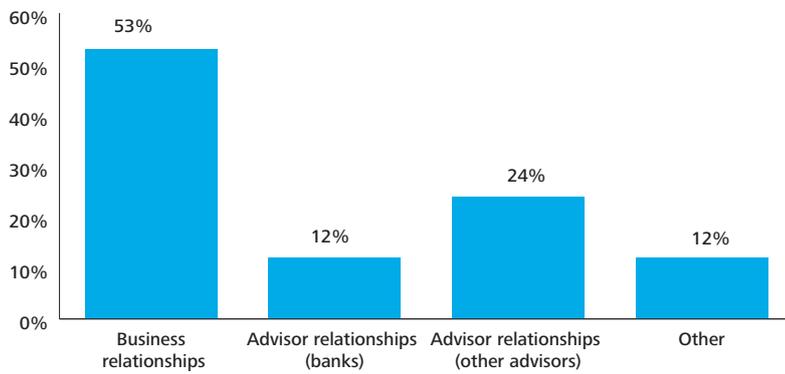
What is your current M&A strategy?



Our clients' M&A strategies are becoming more aggressive, with 88% describing themselves as acquisitive or very acquisitive compared to 77% in spring.

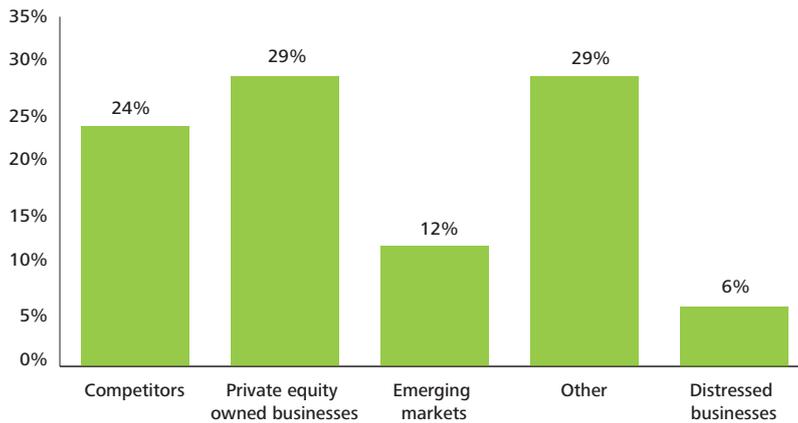
Strategy and origination (continued)

Source of origination – Autumn 2015



Our respondents find that business relationships are more important than advisors in originating deals.

Source of target business – Autumn 2015



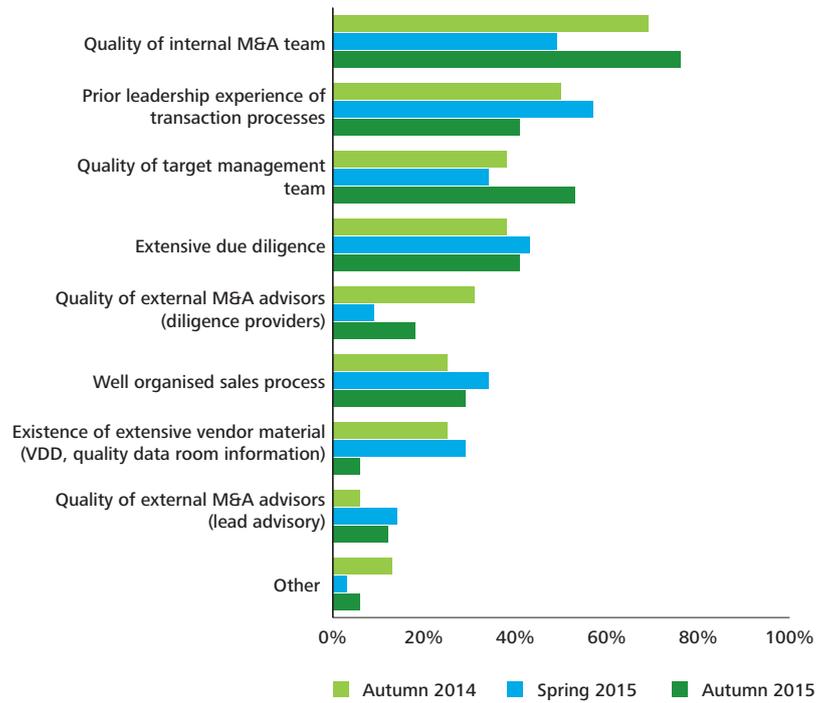
Private equity owned businesses and competitors are viewed as the main sources of targets. "Other" includes family-owned business.

Note: Previous surveys not comparable.

M&A execution

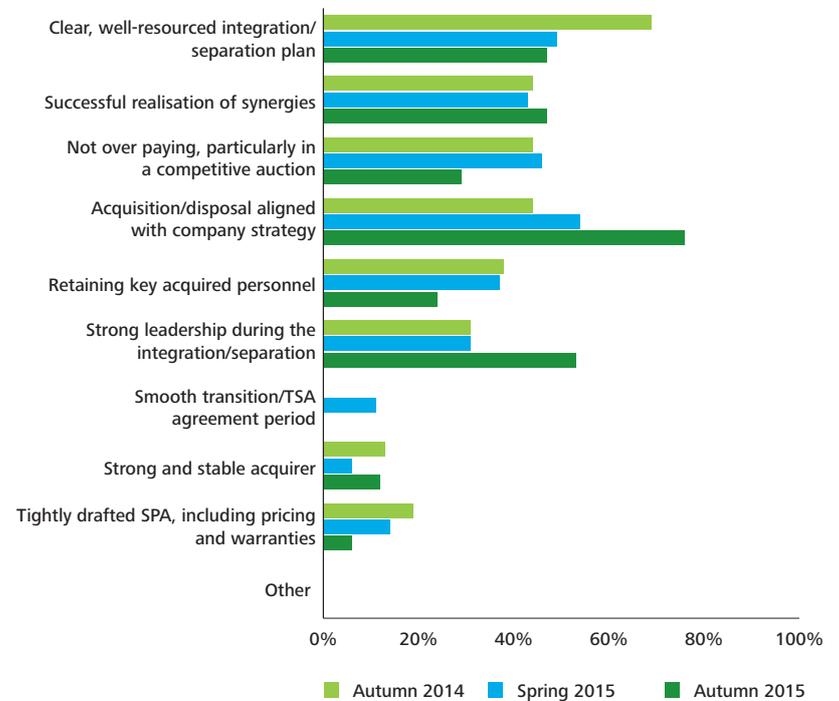
The quality of the internal M&A team in executing a transaction is viewed as the strongest factor in successfully executing a transaction, though a majority of respondents now consider that the quality of the target management team is an important success factor.

Drawing on your experience, please name the most important success factors in executing a transaction



Alignment with company strategy and strong leadership in the integration/separation are viewed as the most important factors in delivering a successful transaction, and both have increased in significance since the 2015 Spring survey.

Drawing on your experience, please name the factors which most underpin a successful transaction



Our Manufacturing and Industrials M&A Specialists

Our team of M&A experts across the firm have extensive experience in providing innovative industry specific solutions to the Manufacturing and Industrials Industry. If you would like to discuss any of the findings in this publication or find out more about our services to the Manufacturing and Industrials industry, please contact one of the specialists listed below:

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Notes

About the Deloitte UK Manufacturing and Industrials M&A Predictions

The Deloitte UK Manufacturing and Industrials M&A Predictions is a biannual summary of the views of CEOs, CFOs and M&A Directors of UK and European Manufacturing and Industrial companies (publicly listed, or private UK businesses).

The Deloitte UK Manufacturing and Industrial M&A Predictions gauges forward-looking expectations for M&A and the capital markets. The survey took place between November and December 2015.

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