

Assembling value*

Navigating through a challenging economic climate:
A special issue on market volatility and its impact
on M&A in the global industrial products industry

Fourth-quarter 2008 mergers and acquisitions analysis



Welcome to the latest edition of Assembling value, PricewaterhouseCoopers' quarterly analysis of mergers and acquisitions in the global industrial manufacturing sector.

In this special issue, we address current business concerns, including the weak credit conditions and the potential level of economic output, as well as the impact on announced deals during the fourth quarter of 2008. We also have analyzed the US stimulus package and its anticipated effect on the industrial manufacturing sector.

As with previous issues of this report, we include a detailed summary of M&A activity in the fourth quarter.

Facing high-stakes choices during volatile times

It's hard to find a current statistic within any aspect of the US or wider global economy that doesn't speak of turbulence and uncertainty. What started with dubious home loans and unsound lending practices has morphed into an unusually severe global recession, affecting consumer spending, business investment, housing, and exports. Those important economic engines rarely go into recession at the same time, making this downturn more severe and farther reaching globally than any other in the post-WWII period.

The US economy has been in recession for more than a year, and all indications suggest the slump is deepening. The US economy shed 2.8 million jobs in 2008, the worst single-year performance since World War II. And that performance culminated with a staggering 1.6 million jobs lost in the fourth quarter. Job losses continued at a brisk pace in the first weeks of 2009.

The National Association of Manufacturers projects that the recession likely will last throughout 2009 and that meaningful recovery might not occur until 2010 or 2011.

Cash infusions into the US financial system—encompassing nearly \$2 trillion in spending by the FDIC, the Federal Reserve, and the US Congress—have helped improve some credit indicators, as reflected in the significant drop in the London Interbank Offered Rate (LIBOR), an important measure of the cost of interbank lending, and the reference rate for financial instruments such as syndicated loans and variable rate mortgages. But credit markets remain clogged, although the likelihood of financial collapse appears diminished.

Although complaints are growing that banks and lending institutions are holding the money the government has provided, closer scrutiny, backed by Federal Reserve statistics, reveals that household and business credit demand is contracting as investment and consumption appetite recedes. That leaves banks struggling to find creditworthy borrowers.

The bottom line is this: More than a year into the US recession, few financial institutions or businesses in the wider economy have shown willingness to bet that the global economic conditions have bottomed and are poised for recovery.

Most sectors of the economy, including industrial products, face painful economic adjustments in response to a precipitous drop in demand for their products. History teaches that when credit, housing, and equity bubbles burst, consumer spending can take years to return to its previous levels as consumers and investors strive to recover from up to \$13 trillion in lost wealth associated with the US economic crisis.

In a piece of potential good news, the sudden, deep drop in fuel costs has begun to increase real wages for workers who remain employed. Coupled with low inflation, this wage growth could cushion the decline in spending. However, the continuing job losses have acted as a conflicting force, driving consumer confidence to a 40-year low.

As they struggle to survive the current conditions and set the stage for prosperous recovery, executives and other corporate managers rarely have faced such challenging and high stakes business choices: How much should we cut capacity? Which plants should we idle? How will we know when the recession has reached its bottom? How do we maintain the flexibility and resources to grow when demand returns?

History shows that strategic decisions concerning acquisitions, capital spending, investments in research and development (R&D), and other organizational decisions made during economic downturns often define a company, or even an industry, for the next decade or more.

The industrial manufacturing subsector is large and diverse, with most companies specializing in specific types of industrial machinery and equipment. However, demand for these products generally tracks closely the health of the larger global economy and certain specific sectors, such as the construction industry.

Because of the credit-fueled strength of the US and global construction industry, industrial manufacturing came fairly late to the global downturn. In the United States, the weaker dollar of early 2008 helped keep the manufacturing sector one of the nation's relative bright spots. But international demand has slowed drastically, leading to a global manufacturing recession.

PwC's fourth quarter 2008 Manufacturing Barometer, a survey of 60 US-based manufacturing executives, reflects the sharpness of the downturn. The Manufacturing Barometer projected in the first quarter 2008 a 4.6 percent average growth in the sector over the next 12 months. By the fourth quarter 2008, executives were projecting minus 2.4 percent growth over the next year. Optimism about the US economy stayed low throughout 2008, bottoming out at 5 percent in the fourth quarter. But residual optimism in the global economy collapsed after the second quarter, dropping from 37 percent to 7 percent.

Without a clear indicator of this business cycle's time contours, most companies are focused on quickly matching the size of their global operations and footprint with the new economic realities confronting them. For instance, heavy

construction equipment manufacturer Caterpillar in December announced significant cuts in executive and worker pay. And then in late January, the bellwether company announced it would cut over 22,000 jobs, nearly a fifth of its workforce, citing a seismic shift in international demand. Caterpillar's after tax profits dropped 32 percent year over year in the fourth quarter of 2008.

According to PwC's 12th annual Global CEO Survey, industrial manufacturing executives think the three top strategies for achieving growth are geographic expansion (29 percent), better penetration of existing markets (27 percent), and new product development (19 percent).

Industrial manufacturing company executives also think that technological innovation is critical, according to the survey. However, as many companies are forced to scale back their R&D budgets, management will have to look for creative ways in which to support innovation. The vast majority of respondents said their companies are collaborating with supply chain partners, as well as with customers and clients. Expanding such partnerships to include new product development and other kinds of innovation may be one way to solve the problem.

What opportunities does the stimulus package present?

The roughly \$790 billion US stimulus plan provides a buffet of spending and tax cuts designed for widespread economic impact.

The package includes direct health and education aid to cash-strapped state governments, household and business tax benefits, and a push to convert medical records to electronic format. It provides about \$80 billion in direct spending on public infrastructure. Some of these dollars will help pay for traditional transportation projects, such as road construction and rail and aviation enhancement. Other spending is aimed at upgrades of the nation's energy transmission and distribution systems, and energy-efficient upgrades to public buildings and housing. The stimulus provides roughly \$40 billion more in incentives and programs designed to spur private investment in targeted industries, such as renewable energy production and broadband expansion.

The National Association of Manufacturers, among others, projects that the stimulus as a whole will not generate growth in the US economy in 2009. But it could significantly mitigate negative growth by as much as 2 percentage points and save more than 1.5 million jobs during the year.

The roughly \$120 billion dedicated to infrastructure spending and incentives represents a relatively small percentage of the total \$790 billion package. Although infrastructure spending could directly aid some construction equipment manufacturers and producers of some specialty products, this spending alone is not a panacea for reviving industrial manufacturing. Rather, given its relatively small size in comparison with the industry's excess capacity, observers see the stimulus more as a cushion for the industry while the business cycle runs its course and global demand begins to grow again.

At the same, the United States isn't the only country pursuing a stimulus package. Most European nations are planning multibillion dollar stimulus spending. China's huge infrastructure spending plan, totaling hundreds of billions of dollars, also figures to pump money into global manufacturing.

Some believe protectionism will influence the stimulus packages both abroad and in the United States. US lawmakers are under pressure to strengthen the "Buy America" provisions of government procurement law. The current law, which dates to 1933, allows for waivers based on price differential and availability of product.

A national survey of more than 1,000 American adults found that 86 percent of those polled, nearly 9 in 10, favor congressional requirements that federally funded transportation and infrastructure projects initiated by the 2009 stimulus bill emphasize using American-made iron and steel before seeking a foreign competitor.

Stricter Buy American provisions could present opportunities for companies that produce specialized goods and have little domestic competition. But cracking down on waivers could have the unintended consequence of cutting US companies' access to other markets as other countries retaliate against US protectionism. President Obama and congressional leaders have indicated that the "Buy America" provisions in the stimulus plan will not violate international trade agreements.

The anticipated direct spending on roads, bridges, transit infrastructure, and energy efficiency upgrades for public buildings could benefit companies that serve specific industries, such as heavy construction equipment manufacturers. However, the amount of spending under consideration is more likely to cushion companies from further overcapacity problems, rather than generate new growth.

Whatever the direct benefits of construction-related stimulus spending, in the United States or abroad, industrial manufacturers will benefit more from these plans if they successfully improve the worldwide economic climate.

M&A outlook

Unlike the first wave of M&A activity that was fueled largely with cash from the acquirer's balance sheets, almost all of the acquisitions in the past two years have been funded with new debt. Because of the credit crisis and the difficulty in assessing the value of a potential acquisition, M&A activity has slowed considerably. We anticipate that credit will remain elusive and expensive and that the economic environment will continue to deteriorate in 2009.

However, we do expect a number of divestitures as companies sell assets to raise cash and reposition themselves for future opportunities. Difficult economic times cast cold scrutiny on all parts of a business, highlighting those that aren't functioning well or hold little promise. Many companies will look to divest operations that don't complement their core business functions. Several large players in the metals sector have announced plans to divest noncore assets. In the short term, they may find few buyers for those assets. But companies that identify noncore assets now—and prepare to act—can take the initiative when economic conditions change.

Forward looking companies should prepare to seize the opportunities that will eventually emerge. A major part of that process is identifying the appropriate operating levels in the current environment while protecting cash and prioritizing only those critical strategic investments.

In the shorter term, we could also see “mergers of necessity,” where companies look to align with stronger players to survive, as well as alternatives to traditional M&A, such as “loan to own” by private equity.

If credit again becomes available, the deal market will likely heat up for a number of reasons, including:

- Valuation multiples are depressed, and many metals companies could be in play.
- Companies need to make acquisitions to better position themselves to take advantage of opportunities.
- Private equity or sovereign wealth funds will likely reemerge.
- Companies need to continue vertical integration especially to secure raw material supply and price.
- The industry needs to rationalize, including reducing excess capacity through consolidation.

General market conditions for the industry are unlikely to improve until the massive debt load and credit dysfunctions are addressed and confidence returns to consumers, banks, and the financial system. But other geopolitical considerations such as the various national stimulus programs, government monetary policies, and currency values may affect which countries and regions see recovery first and how sustainable it is. For instance, as economic pressure grows, China's longstanding currency policy, which was designed to keep its vital manufacturing sector producing, could become a greater source of controversy and political action with trading partners, such as the United States.

The Obama administration has given early indications that it may manage relations with China more aggressively than previous administrations. How the administration addresses the Chinese currency situation could have significant implications for the industry.

Perspective: thoughts on M&A activity in the fourth quarter of 2008

Our analysis on the following pages illustrates a large decline in the pace of deal activity as measured by the number of deals announced during the fourth quarter of 2008. Overall deal volume for 2008 decreased 32 percent compared with 2007 and overall value fell 57 percent. Also noteworthy is the large decrease in total deal value for US target deals (with a disclosed value of at least \$50 million) announced during 2008, which at \$39 billion is a 56 percent drop from 2007 (\$88 billion). This decline in total value is related to a slowdown in large deals due to weak credit conditions, which has led to less participation by financial investment buyers in industrial manufacturing deals.

We note several points of interest that pertain to the industrial manufacturing deal environment.

First, analysis of investor groups indicated that the 37 deals announced by financial investors, as measured by the number of deals announced, fell behind the pace set in 2006 (58) and 2007 (72) due to the financial market turmoil. While the 104 deals announced by strategic investors was also behind the pace of previous years (134 in 2007 and 111 in 2006), the decrease is not as significant. This has resulted in the proportion of industrial manufacturing targets that were acquired by strategic investors relative to those acquired by financial investors increasing for deals announced during 2008 (74 percent) compared with the proportion for deals announced during 2007 (65 percent).

Second, there was no cross-border activity for US targets relative to all deals for US targets during the fourth quarter of 2008.

Finally, the pace of deal activity for targets in China has increased, with 19 deals announced during 2008 and five announced during the fourth quarter of 2008, compared with 18 in 2007 and 10 in 2006; however, the other BRIC countries were not immune to the recent global economic challenges and posted no deal activity during the fourth quarter of 2008.

Only one acquisition announced during the fourth quarter of 2008 had a disclosed value above \$1 billion. With the continued concerns over the weak credit market and global recession, we are likely to see few large deals announced during 2009. We continue to observe through our analysis that historical merger and acquisition activity, as measured by both value and number of deals, has tended to correlate to the changes in economic output. Thus, the pace of industrial manufacturing deal activity is likely to increase as the economy improves and concerns ease. Based on our evaluation of deal activity during 2008, increases in government borrowing and volatile markets, which could move interest rates higher for nongovernment entities, would create a need for substantial revisions to this outlook.

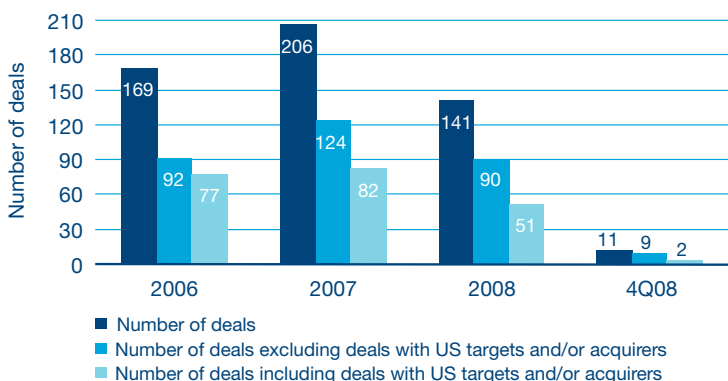
Deal Implications

While it will likely be difficult to close deals in the current economic environment, the downturn has also created opportunities for buyers to take advantage of depressed valuations. Acquisitions in downturns historically have yielded better returns, and strategic buyers can use M&A to better position their business for the next upturn and rationalize capacity in their respective sectors. However, investors must approach acquisitions with caution. In addition to individual targets, investors must understand the particular intricacies and risks affecting each industrial manufacturing sector. Timing is also of the utmost importance. As the outlook for some sectors may worsen before improving, investing too early may create a need for additional cash injections and, in the extreme case, a bankruptcy filing.

Commentary

Deal activity by number of deals

Measured by announced deals worth \$50 million or more

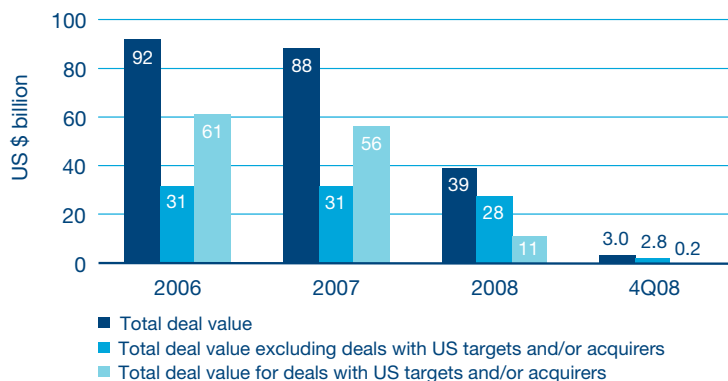


Deal activity falls behind 2006 and 2007 pace

The pace of merger and acquisition activity during 2008, as measured by the number of deals with a disclosed value of at least \$50 million, fell behind the pace set in 2006 (169) and 2007 (206). Likewise, the number of deals announced during the fourth quarter of 2008 (11) is well behind the number of deals announced in the fourth quarter of 2006 (49) and fourth quarter of 2007 (71). In addition, the number of deals announced during the fourth quarter of 2008 that did not involve US targets and/or acquirers did not exceed the level of deal activity by non-US entities announced during 2006, 2007, and all of 2008. This decline can be attributed to the depressed global equity market, unavailable financing, and general market uncertainty as would-be acquirers took a “wait and see” attitude and remained on the sidelines.

Deal activity by total deal value

Measured by announced deals worth \$50 million or more

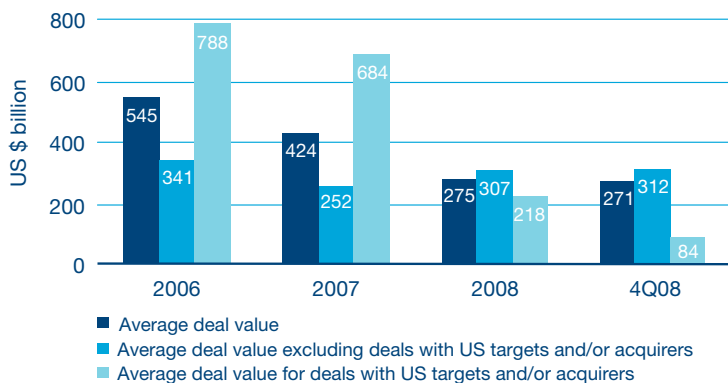


Total deal value declines significantly

The total value for mergers and acquisitions announced during 2008 with a disclosed value of at least \$50 million was \$39 billion—well behind the level of 2007 (\$88 billion). Likewise, the total deal value announced during the fourth quarter of 2008 was \$3 billion—well behind the pace set in the same quarter of 2007 (\$40 billion). This decline in value can be attributed to a continual slowdown in large deals as well as declining financial investor participation in industrial manufacturing mergers and acquisitions (financial buyers historically have been involved in larger deals in the sector). While the global economy is undergoing a challenging period, the negligible amount of deal value announced for US targets during the fourth quarter is symptomatic of an acute level of concern regarding the US market as well as the vitiation of US bank balance sheets, from which local market deals might be financed.

Deal activity by average deal value

Measured by value of announced deals worth \$50 million or more



Average deal value depressed

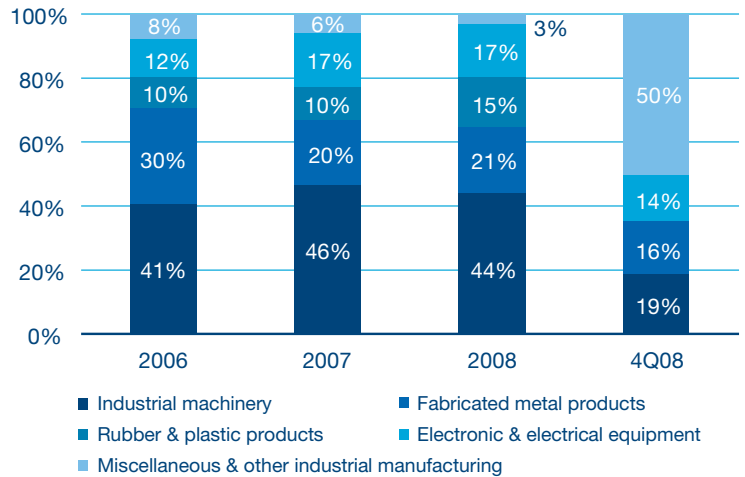
The average value of \$275 million for deals announced during 2008 represents a significant decline from \$424 million in 2007 and \$545 million in 2006. However, the average deal value during the fourth quarter of 2008 was \$271 million, in line with the average deal value of all of 2008. This is primarily due to one large deal valued at \$1.5 billion during the fourth quarter of 2008—without this transaction the average deal value would decline to \$148 million. The average value for deals with US targets and/or acquirers during the fourth quarter of 2008 was \$84 million while the average deal value excluding deals with US targets and/or acquirers during the fourth quarter of 2008 was \$312 million. This difference can be attributed to the absence of large deals announced for US targets during 2008 (the only exception would be the \$3.2 billion Graham Packaging deal announced in June). We can expect to see more depressed valuations for announced US target deals with a deal value of \$500 million or greater.

Industrial machinery targets lead activity

Interest in the rubber and plastic products categories increased to 15 percent during 2008 from 10 percent in 2007, while the deals for targets in other industrial manufacturing categories remained relatively consistent from year to year. One large deal in the miscellaneous and other industrial manufacturing category during the fourth quarter of 2008 accounted for 50 percent of the US target deal value worth \$50 million or more: CITIC Group, Chinese state-owned, planned to acquire CITIC Pacific Ltd., a special steel product manufacturer, for \$1.5 billion.

Deals by industrial manufacturing category

Measured by value of deals worth \$50 million or more

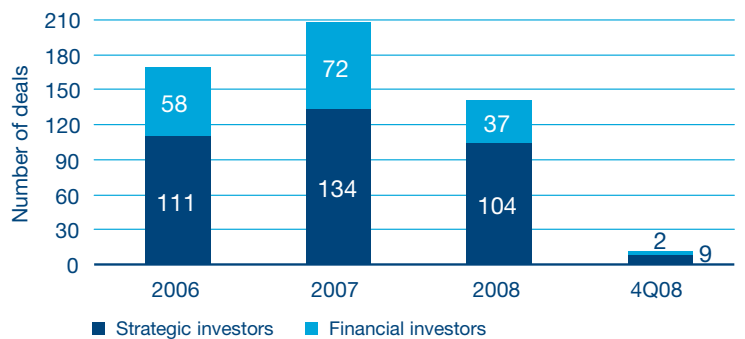


Economic turmoil slows investor activity

An analysis of investor groups indicates that the 37 deals announced by financial investors fell behind the pace set in 2006 (58) and 2007 (72) due to the financial market turmoil. Strategic investment, as measured by the number of deals announced, accounted for 104 deals during 2008. While this represents a drop from both 2006 (111) and 2007 (134), the decrease is not as significant as that for deals by financial investors. The proportion of industrial manufacturing targets that were acquired by strategic investors, relative to those acquired by financial investors, increased for deals announced during 2008 (74 percent) compared with the proportion for deals announced during 2007 (65 percent). It remains to be seen whether a stimulus package enacted under the Obama administration will lead to a recovery in financial investor involvement in industrial manufacturing deals. However, the incremental deficits and national debt incurred to enact such a package eventually could lead to higher interest rates, crowding out private investment. This likely would be a net negative for financial investors.

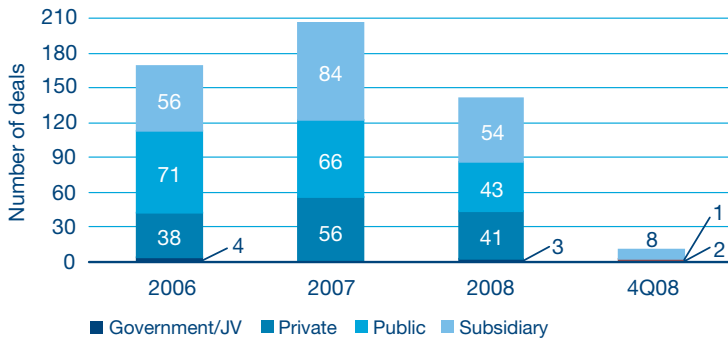
Deal activity by investor group

Measured by number of deals worth \$50 million or more



Deals by target's ownership status

Measured by number of deals worth \$50 million



Subsidiary targets continue to lead ownership status category

The distribution of ownership status of industrial manufacturing deal targets (i.e., government-owned, joint venture, private entity, public entity, and subsidiary) continues to remain steady for deals announced with disclosed values of at least \$50 million. The number of deals for subsidiaries decreased by 36 percent during 2008. Deals for public and private owned targets decreased 35 percent and 27 percent, respectively, during 2008 compared with 2007. However, acquisitions of subsidiary entities led all deal targets (38 percent of deal targets over \$50 million) as measured by ownership status during 2008. In addition, acquisitions of subsidiaries accounted for almost all (73 percent) of deals announced in the fourth quarter, which could reflect the desire of industrial manufacturing to reposition their business portfolios to focus on their core competencies, as well as the short-term need of companies to divest certain business to raise capital and improve performance.

Large deals

One large deal was announced during the fourth quarter of 2008, and only four large deals were announced during the other three quarters. Large deal activity (defined as deals with a disclosed value of at least \$1 billion) has declined dramatically; 23 large deals were announced during 2006, and 17 large deals were announced during 2007. The five middle-market deals (defined as deals ranging between \$100 million and \$1 billion) announced during the fourth quarter of 2008 demonstrate that large deals are not the only category that was negatively impacted by the turmoil in the credit markets and global economy. This trend likely will continue as long as access to credit remains constrained and potential buyers cannot finance large deals or turn to alternative deals structures such as PIPES and loan-to-own.

Large deals in 2008							
Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Jun	Graham Packaging Co Inc	United States	Hicks Acquisition Co Inc	United States	Pending	3.20	Rubber & Plastic Products
Jun	Converteam Group SAS	France	Investor Group	France	Completed	2.95	Electronic & Electrical Equipment
Apr	Enodis PLC	United Kingdom	MTW County Ltd	United Kingdom	Completed	2.40	Industrial Machinery
May	Enodis PLC	United Kingdom	FNI Ltd	United Kingdom	Withdrawn	2.01	Industrial Machinery
Nov	CITIC Pacific Ltd	Hong Kong	CITIC Group Ltd	China	Completed	1.50	Miscellaneous & Other Industrial Manufacturing

Large deals in 2007							
Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Dec	Trane Inc	United States	Ingersoll-Rand Co Ltd	United States	Completed	9.75	Industrial Machinery
Jun	Allison Transmission	United States	Investor Group	United States	Completed	5.58	Industrial Machinery
Jul	Ingersoll-Rand Co Ltd – Bobcat	United States	Doosan Infracore Co Ltd	South Korea	Completed	4.90	Industrial Machinery
Dec	Marmon Holdings Inc	United States	Berkshire Hathaway Inc	United States	Completed	4.50	Fabricated Metal Products
Nov	Genlyte Group Inc	United States	Phillips Holding USA Inc	United States	Completed	2.81	Electronic & Electrical Equipment
Nov	Stork NV	Netherlands	London Acquisition BV	Netherlands	Completed	2.35	Industrial Machinery
Dec	Moeller Holding GmbH & Co KG	Germany	Eaton Corp	United States	Completed	2.22	Electronic & Electrical Equipment
Nov	Firth Rixson Ltd	United Kingdom	Oak Hill Capital partners LP	United States	Completed	1.97	Fabricated Metal Products
Oct	Goodman Global Inc	United States	Hellman & Friedman LLC	United States	Completed	1.85	Fabricated Metal Products
Jul	Amer Standard Cos Inc – Bath & Kitchen Products	United States	Bain Capital partners LLC	United States	Completed	1.76	Rubber & Plastic Products
Feb	Ingersoll-Rand Co Ltd – Road Development	United States	Volvo AB	Sweden	Completed	1.30	Industrial Machinery
Jul	Ryerson Inc	United States	Platinum Equity LLC	United States	Completed	1.23	Fabricated Metal Products
Nov	Aearo Technologies Inc	United States	3M Co	United States	Completed	1.20	Miscellaneous & Other Industrial Manufacturing
Apr	Mauser AG	Germany	Dubai international Capital	Utd Arab Em	Completed	1.16	Rubber & Plastic Products
Apr	Myers Industries Inc	United States	GS Capital Partners LP	United States	Withdrawn	1.07	Rubber & Plastic Products
Jan	REpower Systems AG	Germany	AREVA SA	France	Withdrawn	1.07	Industrial Machinery
Oct	Global Garden Products	Italy	Investor Group	United Kingdom	Completed	1.04	Industrial Machinery

Large deals in 2006

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Jan	Tyco Electronics Ltd	United States	Shareholders	United States	Completed	19.25	Fabricated Metal Products
Oct	American Power Conversion	United States	Schneider Electric SA	France	Completed	6.09	Electronic & Electrical Equipment
May	Iscar Ltd	Israel	Berkshire Hathaway Inc	United States	Completed	4.00	Industrial Machinery
Apr	Alstom SA	France	Bouygues SA	France	Completed	2.47	Industrial Machinery
Dec	SIG Holding AG	Switzerland	Rank Group Ltd	New Zealand	Completed	2.31	Industrial Machinery
Jun	Berry Plastics Corp	United States	Investor Group	United States	Completed	2.25	Rubber & Plastic Products
Sep	SIG Holding AG	Switzerland	Romanshorn SA	Luxembourg	Withdrawn	2.10	Industrial Machinery
Nov	Mueller Water Products Inc	United States	Shareholders	United States	Completed	2.09	Fabricated Metal Products
May	Rexnord Corp	United States	Apollo Management LP	United States	Completed	1.83	Industrial Machinery
Oct	Yankee Candle Co Inc	United States	Madison Dearborn Partners LLC	United States	Completed	1.72	Miscellaneous & Other Industrial Manufacturing
Jun	Enodis PLC	United Kingdom	Manitowoc Co inc	United States	Withdrawn	1.64	Industrial Machinery
Jun	Royal Group Technologies Ltd	Canada	Georgia Gulf Corp	United States	Completed	1.54	Rubber & Plastic Products
May	Enodis PLC	United Kingdom	Middleby Corp	United States	Withdrawn	1.49	Industrial Machinery
Jun	Smorgon Steel Group Ltd	Australia	OneSteel Ltd	Australia	Completed	1.46	Miscellaneous & Other Industrial Manufacturing
Oct	Enodis PLC	United Kingdom	AGA Foodservice Group PLC	United Kingdom	Completed	1.36	Industrial Machinery
Jul	Batesville Casket Co	United States	Shareholders	United States	Completed	1.34	Miscellaneous & Other Industrial Manufacturing
Feb	Cegelec	France	LBO France Finances Sarl	France	Completed	1.33	Industrial Machinery
Oct	Jacuzzi Brands Inc.	United States	Apollo Management LP	United States	Completed	1.24	Fabricated Metal Products
May	OYL Industries Bhd	Malaysia	Daikin Industries Ltd	Japan	Completed	1.15	Industrial Machinery
Feb	Stewart & Stevenson Services	United States	Armor Holdings Inc	United States	Completed	1.12	Industrial Machinery
Mar	MAN Roland Druckmaschinen AG	Germany	Undisclosed Joint Venture Co	Germany	Completed	1.09	Industrial Machinery
Apr	Deutsch Group	United States	Investor Group	France	Completed	1.04	Electronic & Electrical Equipment
Sep	Boart Longyear	United States	Resources Services Holdings	Australia	Completed	1.02	Industrial Machinery

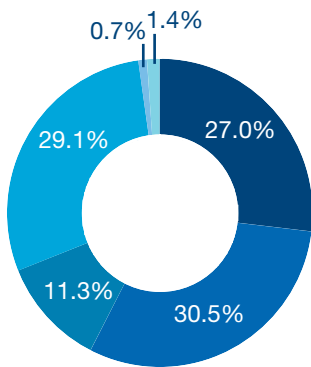
Regional analysis

The regional distribution of deals indicates that firms in the major markets of Asia and Oceania, UK and Eurozone, and North America were the leading targets by region, accounting for more than 87 percent of the number of deals and 89 percent of deal value for deals announced during 2008, and firms in the Europe ex-UK and Eurozone region played much more of a role as acquirers than targets during 2008.

Regional distribution of Q4 2008 deals

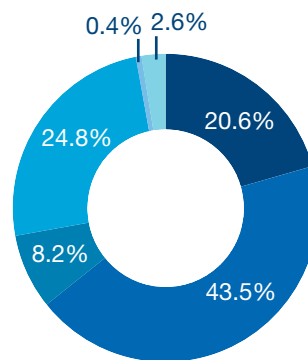
Value of deals by target region

Measured by value of deals worth \$50 million or more



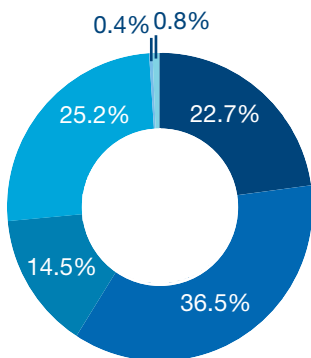
Number of deals by target region

Measured by number of deals worth \$50 million or more



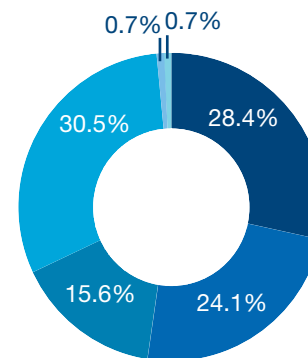
Value of deals by acquirer region

Measured by value of deals worth \$50 million or more



Number of deals by acquirer region

Measured by number of deals worth \$50 million or more



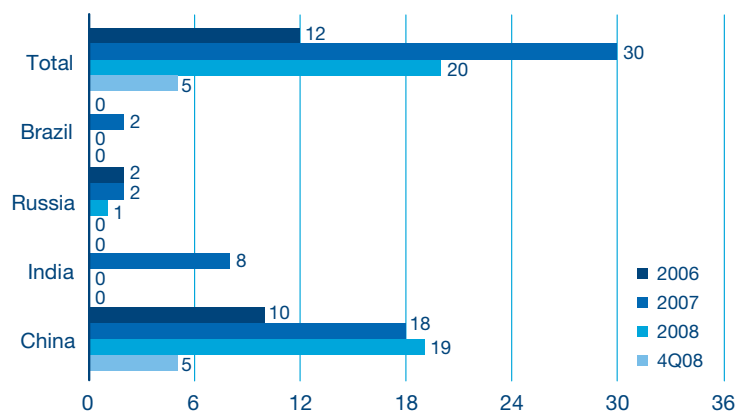
■ Asia & Oceania ¹ ■ UK & Eurozone ² ■ Europe ex-UK & Eurozone ³ ■ North America ■ South America ■ Africa/undisclosed

¹ Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia.

² Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, The Netherlands, Portugal, Slovenia, and Spain.

³ European countries outside the Eurozone include Albania, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Hungary, Iceland, Lithuania, Macedonia, Monaco, Montenegro, Norway, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Sweden, Switzerland, and Ukraine.

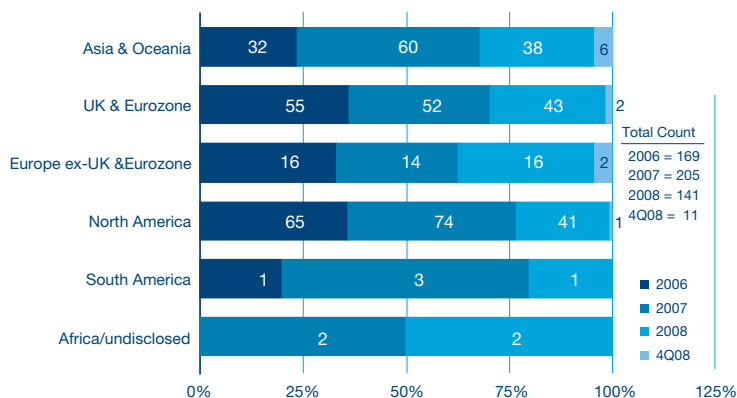
Distribution of BRIC deals, measured by number of deals
Measured by value of deals worth \$50 million



China continues to lead BRIC activity

Analysis of BRIC deal activity reveals the continuing consolidation of the industrial manufacturing industry within China. The pace of deal activity for targets in China has increased, with 19 deals announced during 2008 and five deals during the fourth quarter of 2008 (compared with 10 and 18 in the full calendar years of 2006 and 2007, respectively). Also noteworthy is the deal activity for targets from other BRIC countries, which were not immune to the recent global challenges, as indicated by the absence of deal activity involving Brazil, Russia, and India targets during the fourth quarter of 2008.

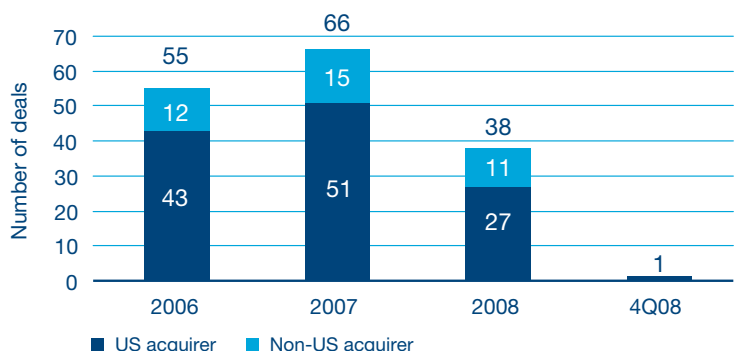
Distribution of deals by target region
Measured by number of deals worth \$50 million or more



UK & Eurozone deals outpace North America

The regional distribution of deals indicates that the majority of deals announced during the past three years have involved targets in the Asia & Oceania and UK & Eurozone regions. The general decline in deals for targets in North America is the result of less interest in deals targeting US entities.

US versus non-US acquirers of US targets
Measured by number of deals worth \$50 million



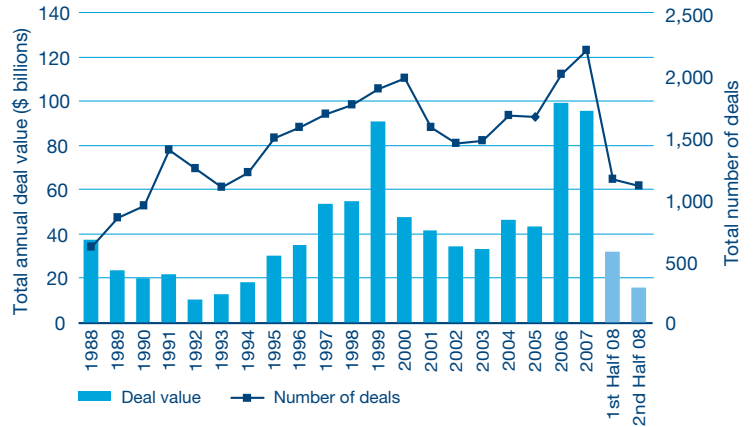
Non-US acquisition of US targets slows

The proportion of cross-border deals for US targets relative to all deals for US targets continues to hold true for transactions announced during 2008 (29 percent of deals for US targets were cross-border deals) compared with both 2006 and 2007 (approximately 22 percent of deals announced for US targets were cross-border deals). There were no cross-border deals for US targets relative to all deals for US targets during the fourth quarter of 2008. The lack of available credit, market uncertainty, and weak confidence among companies to pursue transactions could reduce the near-term demand for deals for US targets.

Historical perspective

A total of 2,218 deals were announced during 2008. This is the highest number of deals announced in a one-year period during the past 20 years. When considered in conjunction with the trend of moderate large deal activity announced during 2008, the pace of deal activity as measured by announcements for all deals (regardless of deal size or whether a deal was disclosed) suggests that deal activity for industrial manufacturing targets announced during 2008 shifted toward smaller deals. However, the annual deal value for industrial manufacturing targets in 2008 decreased 51 percent (from \$95.1 billion in 2007 to \$45.1 billion). This would be the largest decline in total deal value for industrial manufacturing targets since the change between the 1999 and 2000 periods and reflects smaller deal sizes and fewer competing bids.

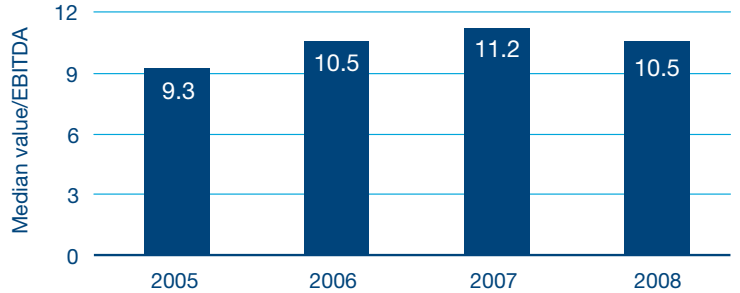
Historical analysis of manufacturing deals 10-year comparison of annualized deal activity



Deal value to target EBITDA declines

The median deal value to target EBITDA ratio for deals announced during 2008 of 10.5 declined slightly from the levels of the previous year (11.2). The available sample of deal value/EBITDA data was limited in each period (33, 66, 67, and 41 in 2005, 2006, 2007, and 2008, respectively); therefore, the median value was selected as a measure of central tendency to reduce the influence of outliers. The decrease in median value to target EBITDA ratio reflects a lower availability of capital, high risk premiums, and the lack of competition for targets. In addition, this multiple may also be propped up by lower EBITDAs in 2008.

Deal valuation by median value/EBITDA Measured by value/EBITDA for deals worth \$50 million or more



Financial crisis: managing through the downturn

The current financial crisis and the tightening of credit have impacted M&A activity dramatically. With few new M&A deals in the pipeline, companies are turning their focus in new directions to find opportunities for growth. Some companies are reviewing past deals to drive more complete integration and further streamline business operations to extract working capital, cut costs and drive efficiencies. Others are examining under-performing assets and planning divestitures. Finally, some far-sighted managers, despite the challenging market conditions, are dusting off old strategic plans to identify potential acquisition candidates that were once viewed as too expensive. In any case, most companies have realized that the end of easy credit could spell a slowdown for debt-fueled transactions and are placing a renewed premium on organic growth, cost containment, and operational excellence.

Operational excellence, however, does not stem from a myriad of new business concepts. To the contrary, it is “back to basics,” a time to focus on flawless execution of business plans. Today, the mantra has become, “better, faster, smarter.” At PwC, we understand the fundamentals of business. In dealing with the critical short-term risks of liquidity and financing and preparing for an extended economic downturn, we are assisting our clients with the following:

- Developing and maintaining a robust financial forecast
- Identifying key forecast risks and developing appropriate responses
- Ensuring adequate sources of liquidity
- Driving efficiency in working capital processes
- Aggressively managing costs
- Exercising discipline in capital investments

- Assessing and monitoring credit exposures throughout the value chain

These seven steps are the key to managing risks, avoiding the pitfalls and capitalizing on emerging opportunities inherent in times of financial and economic turmoil. Those companies that address their short- and longer-term issues in this way may benefit in many ways—among them: greater visibility into their cash needs and enhanced decision-making efficiency and control, improved understanding and ability to manage performance variables, access to sufficient sources of liquidity to remain viable through an extended downturn, less need to finance working capital, increased liquidity and ROI through disciplined capital investment, lower costs and a culture of cost-consciousness, reduced credit exposure in commercial transactions, less exposure to counterparties and prevention of supply chain disruptions.

While there are risks to manage and challenges to surmount, a crisis can also be an opportunity for management to address structural issues within the business that had previously been too difficult to confront. A crisis can unite stakeholders to face the difficult challenges necessary to enhance competitiveness including undertaking large restructurings. As credit continues to tighten across many industries we expect to see opportunities for well-capitalized players to take advantage of rare opportunities to address strategic objectives through transformational transactions. We have already begun to see this in the financial services and utility sectors where the stronger players are beginning to subsume weaker ones, and we anticipate seeing similar consolidation across multiple sectors as leading players seek to leverage their relative financial strength to further their competitive advantages.

Speciality case study: managing risks in the supply chain

Client: large industrial manufacturer

Client issue

After having extracted large price concessions from its suppliers, this company began to see more frequent and costly supplier failures. These supplier failures were resulting in excessive costs due to supplier support payments, higher product costs, supply chain disruptions and a great deal of management resources.

Approach

Initially, PwC performed a review of the company's supply base and ranked each supplier based on its importance to the client (they make a highly valuable, proprietary part) and their "riskiness" considering both financial and operational attributes. We then worked with client to develop an action plan to deal with each of the troubled suppliers based on the parameters defined above. Next, PwC helped the client to design a supplier risk "early warning system" in which a methodology was designed to assess risk during initial sourcing (and negotiate terms and conditions accordingly) and monitor risk on an ongoing basis using a set of early warning indicators. A new governance structure was put in place to ensure discipline in dealing with troubled suppliers and decision rules were developed to manage supply relationships in an escalating fashion depending on risk with responses ranging from calling or meeting with suppliers all the way through full "resupply."

Impact

The client was able to put some structure and rigor around its supplier risk program that resulted in better decisions around sourcing and supply that ultimately has resulted in better visibility into potential supply chain issues, fewer supply disruptions and lower costs.

PricewaterhouseCoopers Industrial Manufacturing practice

Our Industrial Manufacturing practice comprises a global network of industry professionals serving manufacturing clients strategically located in over 30 countries around the world. We bring experience, international industry best practices, and a wealth of specialized resources to help solve business issues.

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Methodology

Assembling value is an analysis of mergers and acquisitions in the global industrial manufacturing industry. Deal information was sourced from Thomson Financial and includes deals for which targets have primary SIC codes that fall into one of the following SIC industry groups: Millwork, Plywood and Structure; Wood Buildings and Mobile Homes; Partitions, Shelving and Lockers; Gaskets, Packing and Sealing Devices; Fabricated Rubber Products; Miscellaneous Plastics Products; Heating Equipment, Except Electric Air; Fabricated Structural Metal Products; Bolts, Nuts, Screws, and Other Machine Products; Metals Forgings and Stampings; Coating, Engraving, and Allied Services; Miscellaneous Fabricated Metal Products; Engines, and Turbines; Farm and Garden Machinery; Metalworking Machinery; Special Industry Machinery; General Industrial Machinery; Refrigeration and Service Industry Machinery; Miscellaneous Industrial and Commercial Machinery; Electric Transmission and Distribution Equipment; Electrical Industrial Apparatus; Electrical Lighting and Wiring Equipment; Miscellaneous Electrical Machinery and Equipment; and Miscellaneous Manufacturing Industries.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases and acquisitions of remaining interest announced between January 1, 2006, and December 31, 2008, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), or withdrawn.

Regional categories used in this report approximate United Nations (UN) Regional Groups, as determined by the UN Statistics Division, with the exception of the North America region (includes Northern America and Latin and the Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups) and Europe (divided into UK and Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia and Polynesia. Overseas territories were included in the region of the parent country and China, when referenced separately, includes Hong Kong. The term “deals,” when referenced herein, refers to deals with a disclosed value of at least \$50 million unless otherwise noted.

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