



M&A Predictor: Global Industrial Sector

2018 Annual Report/Sector Report

Includes 2018 Q1 Update
May 2018

KPMG International
Deal Advisory

kpmg.com/predictor-industrial



Industrial markets



Danny Bosker

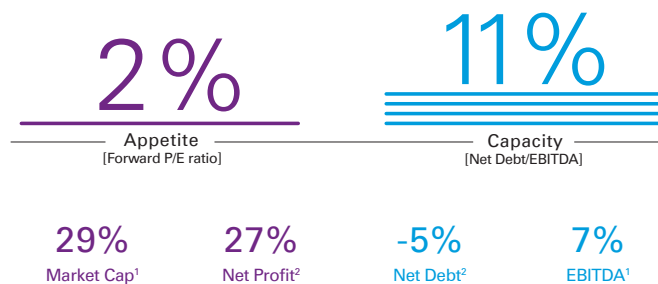
Partner, Deal Advisory

Head of M&A, KPMG in the Netherlands

Through his career of over 20 years, Danny has worked on a wide range of M&A transactions, including sales, acquisitions, divestments and public offers.

“I’m very bullish about 2018 for several reasons, particularly the ongoing drive for both competitive innovation and global conservation among many industrial companies looking to transform business models and dramatically improve their competitiveness and sustainability.”

~ Danny Bosker, Head of M&A, KPMG in the Netherlands



The Industrial Markets sector posted another robust year of M&A activity, in line with our 2017 Predictor report, and global players are expected to remain in the deal-making ‘fast lane’ for 2018 as the race for technological innovation and business transformation continues.

“We do expect the Industrial Markets sector to exhibit a sustained healthy appetite for deals and plenty of significant activity this year. As anticipated and predicted, we saw 2017 continue the hot trend of 2016 dealings – and 2018 looks promising

for this trend to endure,” says Danny Bosker, KPMG in the Netherlands.

His optimism exceeds what we are seeing for 2018 as reflected in the M&A Predictor data: the forward P/E ratio, our measure of corporate appetite for M&A, is expected to rise by 2 percent. The capacity to transact is also expected to increase, with net debt/EBITDA, our measure of capacity, showing an 11 percent improvement in 2018. Both these numbers are below the global average of 5 percent and 17 percent for predicted appetite and capacity respectively.

Source: CapitalIQ and KPMG Analysis
1. As at December 31, 2017 vs as at December 31, 2016
2. December 31, 2017 to December 31, 2018 vs December 31, 2016 to December 31, 2017

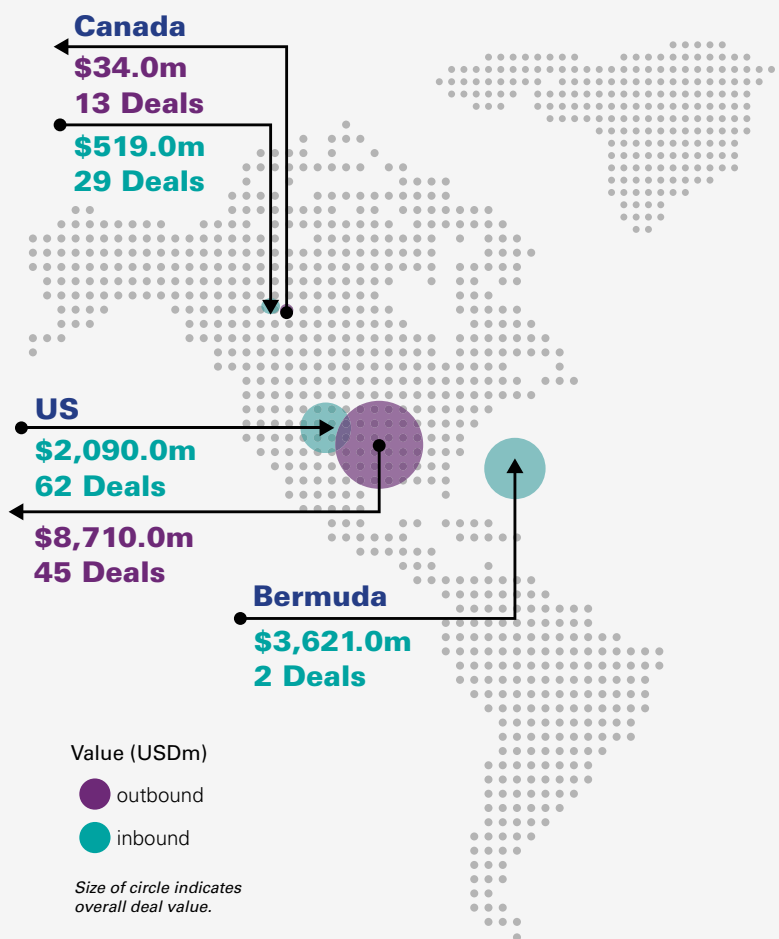
"I'm very bullish about 2018 for several reasons, particularly the ongoing drive for both competitive innovation and global conservation among many industrial companies looking to transform business models and dramatically improve their competitiveness and sustainability. The focus on technology and innovation will continue to drive M&A activity, including the hunt for new environmental technologies in heating, ventilation and insulation – anything to do with CO2 reduction and improved environmental impact," continues Danny.

Restructuring will also play a role in driving activity, he adds, particularly across an oil and gas market hard hit by crashing oil prices.

The current year to the end of Q1 2018 supports this more positive outlook, with deal value soaring 92 percent to US\$113 billion from US\$59 billion in Q1 2017. The number of deals in Q1 2018 was 17 percent lower at 946 versus Q1 2017.

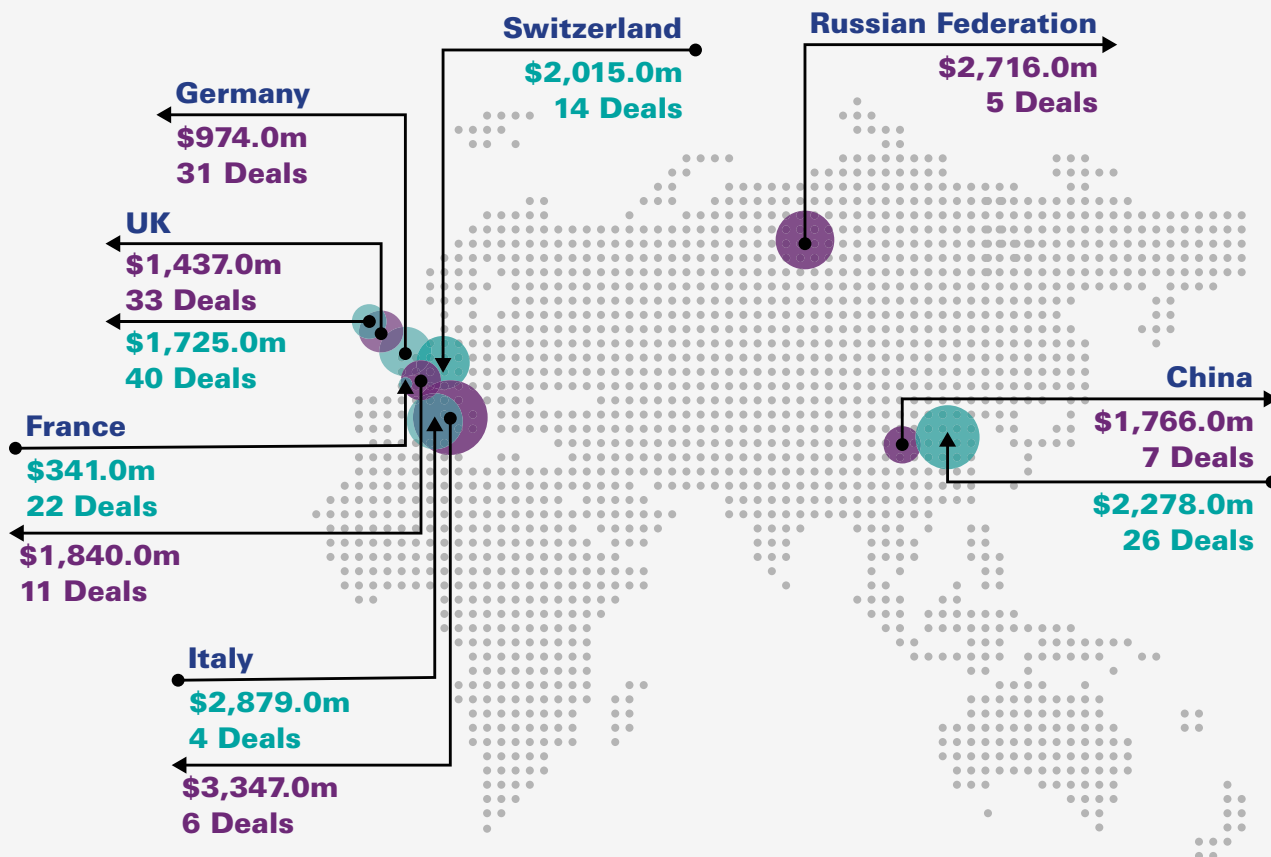
Top Countries for Deals

LARGEST COUNTRIES OF ORIGIN	LARGEST DESTINATION COUNTRIES
BY \$	BY \$
United States \$8,710.0m	United States \$20,648.0m
Italy \$3,347.0m	Bermuda \$3,621.0m
Russian Federation \$2,716.0m	Italy \$2,879.0m
France \$1,840.0m	Switzerland \$2,015.0m
China \$1,766.0m	China \$1,121.0m
BY #	BY #
United States 45	France 21
United Kingdom 33	Germany 18
Germany 31	China 18
Canada 13	Japan 18
France 11	United States 17

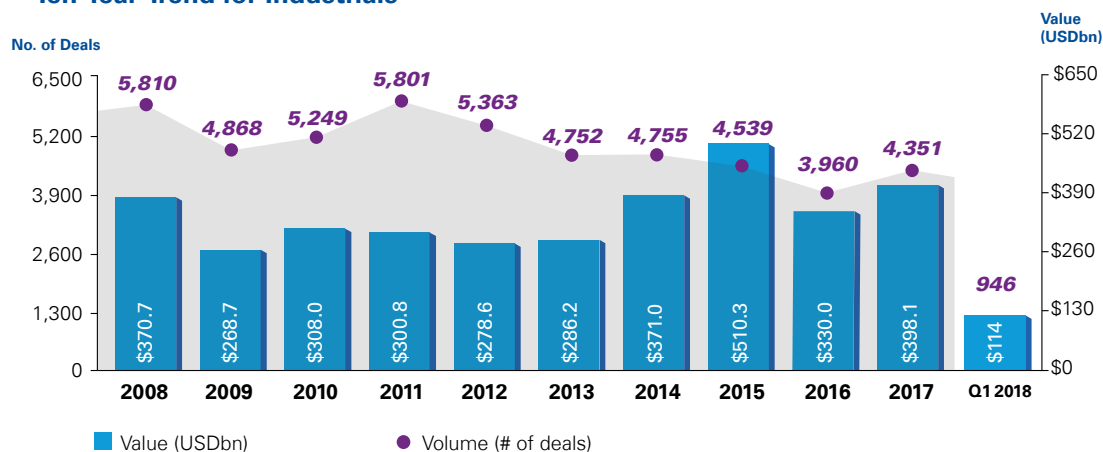


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~ Danny Bosker, Head of M&A, KPMG in the Netherlands



Ten Year Trend for Industrials



Reviewing 2017

The sector generally met our expectations for a strong 2017 amid deal activity that included numerous cross-border and cross-sector deals. Total deal value rose to US\$398 billion in 2017 from US\$330 billion in 2016, while the number of 2017 deals rose to 4,351 from 3,960 in 2016. Average deal size also increased, to US\$92 million from US\$83 million.

Danny notes that deal interest we witnessed in 2017 should remain particularly strong among Asian players, especially Japanese firms, with numerous global companies scouting the European landscape for businesses that are a fit or that can quickly deliver key technologies in the race to innovate and drive competitive advantage and growth.

“Look for the percentage of cross-border deals to increase,” Danny concludes. “The world of business continues to become much more global as technology and the Internet dramatically expand the landscape for attractive growth opportunities. The playing field just keeps growing. We also expect private equity to keep playing a significant role in 2018, as businesses pursue critical funding for rapid but efficient innovation and transformation.”

Top deals

	Target Name (Stake %) Target Country	Bidder Name Bidder Country	Value (US\$ million)
1	Fibria Celulose SA (100%) Brazil	Suzano Papel e Celulose SA Brazil	\$14,505.0
2	Smurfit Kappa Group plc (100%) Ireland	International Paper Co United States	\$14,130.0
3	GKN plc (100%) United Kingdom	Melrose Industries plc United Kingdom	\$11,652.0
4	GKN plc (Driveline division) (100%) United Kingdom	Dana Inc United States	\$6,231.0
5	KapStone Paper & Packaging Corp (100%) United States	WestRock Co United States	\$4,957.0
6	Beijing Electric Vehicle Co Ltd (100%) China	Chengdu Qianfeng Electronics Co Ltd China	\$4,505.0
7	Hochtief AG (Stk%) Germany	Atlantia SpA Italy	\$3,095.0
8	Italo-Nuovo Trasporto Viaggiatori SpA (100%) Italy	Global Infrastructure Management LLP Italy	\$3,007.0
9	Jingdong Logistics Group Corp (18.4%) China	"Hillhouse Capital Management Ltd Sequoia Capital China China Merchants Group Ltd Tencent Holdings Ltd China Life Insurance (Group) Co China Development Bank Capital Corp Ltd China Structural Reform Fund Co Ltd Industrial & Commercial Bank of China - ICBC" China	\$2,500.0
10	Pro Mach Inc (100%) United States	Leonard Green & Partners LP United States	\$2,200.0

How can KPMG help

At KPMG firms, we think like investors, looking at how opportunities to buy, sell, partner or fund a company can add and preserve value. Our teams of specialists combine a global mindset and local experience with deep sector knowledge and superior analytic tools to help you navigate a complex, fragmented process. KPMG professionals can help with business strategy, acquisition strategy, plans for divestments or for raising funds.

Further reading

Please visit the Global Deal Institute to find the latest thought leadership around the complexity of today's deal environment, including:



M&A Predictor/2018 Annual Report with Q1 2018 update

The full report contains a global overview and sector reviews for 4 other key global sectors. The online version also provides interactive charts for cross-regional and cross-sector deal tracking.



2018 Global Manufacturing Outlook, 8th edition

The overall theme of this year's report is: Manufacturers transforming for a digitally connected future. Find out as manufacturers reflect on the opportunities and face the challenges of digital transformation journey.



Beyond the hype: Separating ambition from reality in i4.0

KPMG International offers a realistic perspective on the current state of i4.0 adoption and readiness across the market. It is based on a series of in-depth benchmarking exercises with leading industrial manufacturers around the world. And it identifies how today's market leaders are taking advantage of comprehensive.

kpmg.com/dealsinstitute

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