

Assembling value

First-quarter 2009 industrial manufacturing mergers and acquisitions analysis

The weight of the auto industry continues to have an adverse effect on the industrial manufacturing sector overall



Welcome to *Assembling value*, PricewaterhouseCoopers' quarterly analysis of mergers and acquisitions (M&A) in the global industrial manufacturing industry. In addition to a detailed summary of M&A activity in the first quarter of 2009, we supplement this issue with a special report that addresses the effect of the national stimulus bill and the developments in the auto industry on the industrial manufacturing sector. Included in the discussion are ways in which automotive losses translate to difficulties for industrial manufacturing companies as well as their efforts for long-term restructuring.

Special report:

IM companies find auto woes highly contagious

The automobile industry is one of many sectors that have had an upstream impact on the industrial manufacturing (IM) industry during the economic downturn. The automotive industry's impact is unique because its structure following a global economic recovery is uncertain, particularly in North America. Companies that are major direct or indirect suppliers to certain distressed automobile manufacturers may find their market positions fundamentally changed.

While all automakers have realized significant reductions in volumes, as year-to-date US automakers are down 38 percent when compared with 2008, General Motors (GM) and Chrysler are the only companies that have accepted federal loans. These two companies are under considerable pressure to make changes that position them to succeed and most certainly will be more aggressive in their efforts to restructure than are other automakers. Many of PricewaterhouseCoopers' IM sector clients are telling us their exposure to the automobile industry has proved greater than they realized and that the structural changes within the industry are imposing corresponding structural changes upstream in the supply chain that endanger a large swath of the industry. And that process could accelerate.

For example, consider the impact that a so-called surgical bankruptcy of General Motors, as discussed by government officials, would have on the IM sector. It could split the company into a good GM and bad GM by rapidly shedding troubled or less profitable brands and reduce its dealership network by nearly 3,000 retail stores over the next two years. GM has already announced it will shed Hummer, Pontiac and Saturn, with or without a bankruptcy. An IM company tied closely to a supplier for discontinued brands will likely find its revenue slashed significantly in a relatively short period.

Chrysler has long planned to forge a deal with Fiat, an Italian automaker, as a means to become a viable company when it emerges from Chapter 11 bankruptcy. As a result, companies with ties to Chrysler will likely contend with additional competition from established suppliers of Fiat.

Problems are hardly limited to US companies. Successful Japanese brands Honda and Toyota are cutting production at their US plants due to the depressed market. But they enjoy generally healthier financial and labor situations than their Detroit counterparts. Yet, even if foreign-based original equipment manufacturers (OEM) take over market share shed by US OEMs, and ramp up US production, industrial manufacturers may find themselves frozen because vehicles manufactured by non-US OEMs contain far less North American material, even when manufactured in the United States.

In addition to the \$17 billion to date in government loans to GM and Chrysler, the stimulus bill approved in February by the US Congress could mitigate the recessionary forces facing the industrial sector through its current and future funding of infrastructure projects. But that stimulus money likely will not be a determining factor for a large portion of the industrial sector such as IM. The stimulus plan has limited direct impact on an automotive sector largely driven by consumers' wealth, income, and credit availability. Any benefit will be derived from the psychological effect on consumer confidence and the corresponding increase in consumer spending in automotive and appliances. The future of consumer spending may well decide which companies survive and which sectors undergo reorganizations that could spur mergers and acquisitions activity.

Buying time through stimulus programs

Although the automotive industry's troubles are well-known, its dismal statistics are even more telling. The PwC AUTOFACTS^{®1} global light vehicle production forecast for 2009 is 54.9 million units, down 17 percent from 66.2 million units in 2008. The 10.1 million US sales forecast for 2009 translates into North American light vehicle output of 8.7 million, the lowest output since 1982, according to the AUTOFACTS' second quarter forecast. An industry that suffered from chronic overcapacity before the economic crisis faces a painful unwinding of that capacity. Much of the global manufacturing and industrial base is following.

¹The PwC Automotive Institute is a team of industry specialists inside the firm's Global Automotive Practice dedicated to the ongoing analysis of sector trends. Client service offerings include insightful Analyst Briefings, the Analyst Notes information service, and the proprietary AUTOFACTS Global Light Vehicle Assembly and Powertrain Consumption Forecast.

The exceptions to this automotive gloom are the BRIC (Brazil, Russia, India, and China) countries, particularly China and Brazil, where aggressive government tax-incentive programs targeting burgeoning domestic markets have propped up automobile sales and production. Those nations account for 25 percent of the 2009 global automotive production forecast, compared with 9 percent in 2001.

For developed markets, government-backed programs and incentives seem to be the only viable near-term path to mitigating the demand and production collapse. For instance, some European countries have adopted a scrap program that provides incentives for junking older, less fuel-efficient vehicles that can be applied to the purchase of newer, greener cars. The standard for this type of program appears to be Germany, which has seen a 20 percent improvement in sales for first quarter 2009 versus first quarter 2008 since adopting the program in early 2009, including a 40 percent increase in March 2009 versus March 2008. The US Congress is considering a handful of bills that would establish similar plans.

Long-term restructuring

Even with successful incentive plans, global automotive sales are not expected to return to their previous highs for several years. The industry and its supply base will contract. We expect the global OEM supply network to rationalize and consolidate significantly, perhaps to half its size. This process may prove more severe for North American suppliers, with their heavy reliance on US-based OEMs.

Prior to the recent bridge loans, the US Congress approved \$25 billion to help the US automotive industry retool itself with a focus toward better fuel economy and electrification of vehicles. On top of that, the United States is moving toward tougher fuel economy standards, though legal challenges make their ultimate form unpredictable.

The bottom line is that the IM sector, particularly in the United States, faces a near-term—and possibly longer-term—future in which the global automotive industry is smaller and more cognizant of environmental efficiency. It should expect to earn less of its revenue from automotive industry impact than it has in the recent past.

Many companies have realized this and are making efforts to diversify into sectors with growth potential—namely healthcare, energy, and public sector infrastructure spending. Many companies likely will retool some of their processes and product lines to produce goods that can serve growth sectors. This process might well spur M&A activity as automotive-dependent sectors look for strategic purchases or mergers that match skills and capabilities that can function in an energy- or healthcare-driven economy. In the short term, though, with deal financing difficult to find, IM companies—and those from the other sectors in our reports—are seeking to fill the void the automotive industry has left in their income statements.

Perspective:

Thoughts on deal activity in the first quarter of 2009

A challenging global macroeconomic environment characterized by a tight credit market, reduced corporate profits, and low investor sentiment has resulted in lower demand for the acquisition of industrial manufacturing assets. In this publication, we analyze deal activity in the current environment relative to past periods to understand how market conditions may be impacting executive and investor sentiments regarding M&A. More specifically, we analyze how dynamics, based on the volume and value of M&A activity, may have shifted as a result of the ongoing credit crisis and resulting global economic slowdown.

Data reveals that deal activity with disclosed values of at least \$50 million grinded to a near halt in first quarter 2009, continuing the fourth quarter 2008 trend. The very large deal activity common in 2006 and 2007 has been nonexistent in 2009, as have the key deal drivers of that period: strong corporate profits, strong financial sponsor fundraising, and a robust credit market.

Following, we highlight key findings from this quarter's analysis.

This year is off to a slow start. During the first quarter, on a year over year basis, the pace of deal activity, measured by the number of deals with a disclosed value of at least \$50 million, slowed substantially from prior periods with total deals declining to 13 from 43 during first quarter 2008, 45 in first quarter 2007, and 38 in first quarter 2006. Total value for these deals was approximately \$1.6 billion, an 80 percent decline from the \$8 billion in first quarter 2008 and an 87 percent decline from the same period in 2007. In addition, average deal value in first quarter 2009 declined to \$126 million versus \$185 million in first quarter 2008 and \$273 million in first quarter 2007.

Financial investors are confined to the sidelines, at least until credit improves. Most recent deal-making has been left to strategic buyers. Financial buyers have been constrained by the continued lack of availability of credit for deal leverage as well as a slowing influx of capital from financial sponsors. Although the percentage of deals attributable to financial investor activity increased on a year over year basis, the number of deals declined substantially from 14 in first quarter 2007 and nine in first quarter 2008 to three during first quarter 2009.

Large deals have all but dried up. Large deals, defined as those with a disclosed value of at least \$1 billion, have declined dramatically from the boom of 2006 and 2007. There were 23 large deals in 2006, 17 in 2007, and five in 2008. In first quarter 2009, there were no large deals. The decline in large deal activity, however, is not surprising given the credit environment, uncertain global economic outlook, weak corporate profits, and companies' focus on cash retention. We believe large deal activity will remain weak in the near term due to these issues.

Valuation multiples, measured by the deal value to sales ratio, have adjusted downward. We calculated deal value to sales using both the median and mean (arithmetic average). During first quarter 2009, the median deal value to target sales ratio for deals announced with values of \$50 million or more was 1.1x, 20 percent lower than 2008 multiples and 32 percent lower than the multiples in 2007. Using an adjusted mean, where we adjusted for extreme outliers, the first quarter 2009 deal value to sales ratio also contracted when compared with the first quarter 2008 (6 percent decline) and 2007 (18 percent decline). Obviously, a decline in multiples is not a surprise given current industry fundamentals.

Deal market outlook. We have observed that historical deal activity, measured by both value and number of deals, usually relates to the changes in economic output. Looking forward, we believe the pace of industrial manufacturing deal activity may continue to exhibit bearish tendencies as corporate strategies continue to focus on surviving the challenging operating environment and as financial investors continue to face tight credit. While we have begun to see the first signs of life in the credit markets—for example, global debt underwriting during first quarter 2009 was up versus the year-ago level—we continue to believe that signs indicate an economic recovery is likely an essential condition for a significant increase in industrial

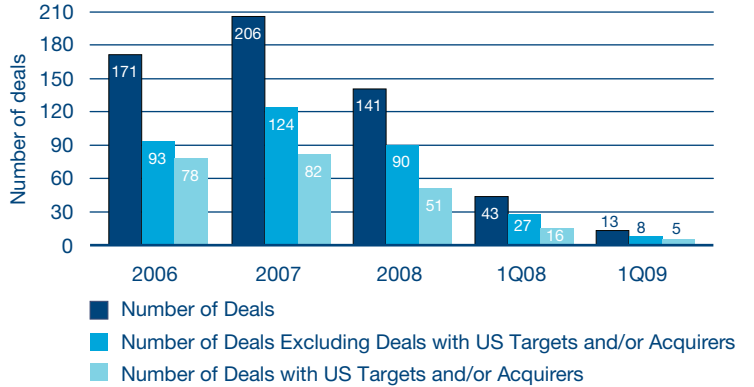
manufacturing deal activity over the balance of 2009. There may be a couple of silver linings. We believe that current global economic and credit market concerns could lead to an increase in distressed deals and “deals of necessity” in the sector, giving a counter-cyclical boost to short-term industrial manufacturing deal activity. However, these deals obviously will see low prices; therefore they may not significantly move many of the deal statistics that we track. In addition, Chinese companies, and perhaps other markets that show early signs of recovery and/or major government stimulus, may have greater access to capital and, therefore, may be able to use acquisitions to better position themselves for when the market cycle turns.

Commentary

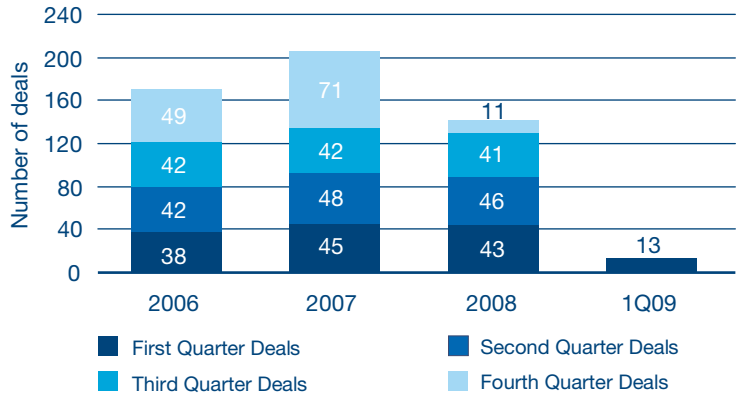
2009 is off to a slow start

On a year over year basis, the pace of deal activity as measured by the number of deals with a disclosed value of at least \$50 million slowed substantially during first quarter 2009. Total deals declined to 13 from 43 during first quarter 2008, 45 in first quarter 2007, and 38 in first quarter 2006. On a positive note, sequentially, the number of announced deals increased 18 percent from the 11 deals announced during fourth quarter 2008. However, it is safe to say that the weak deal trends seen in late 2008 have continued into 2009.

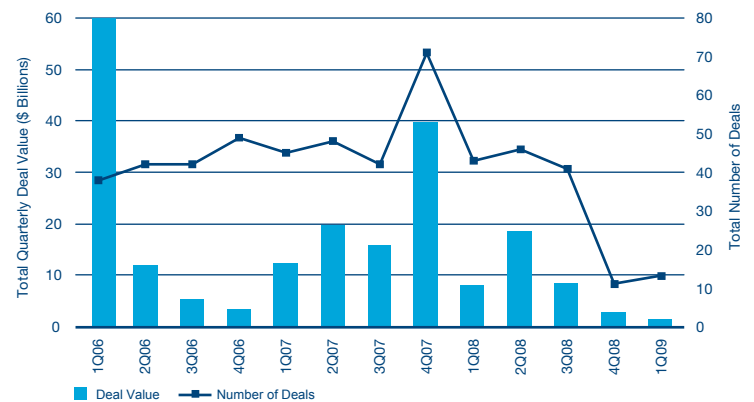
Deal activity by number of deals – annual statistics
Measured by number of deals worth \$50 million or more



Deal activity by number of deals – quarterly statistics
Measured by number of deals worth \$50 million or more

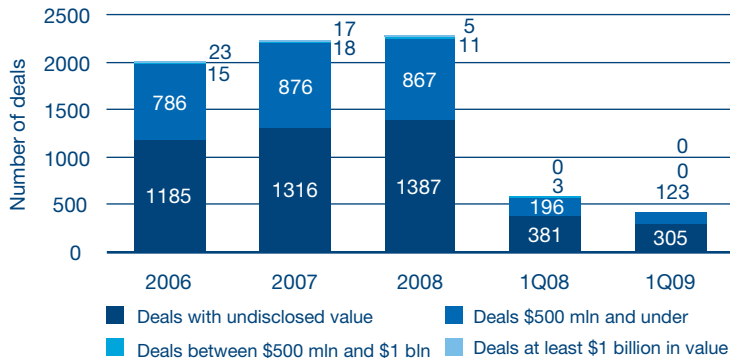


Historical perspective of deal activity – quarterly
Measured by number of deals worth \$50 million or more



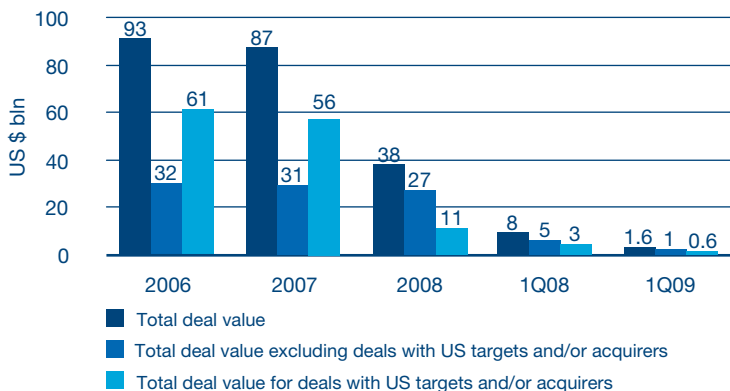
Deal activity by number of deals and range of deal value

Measured by number of deals



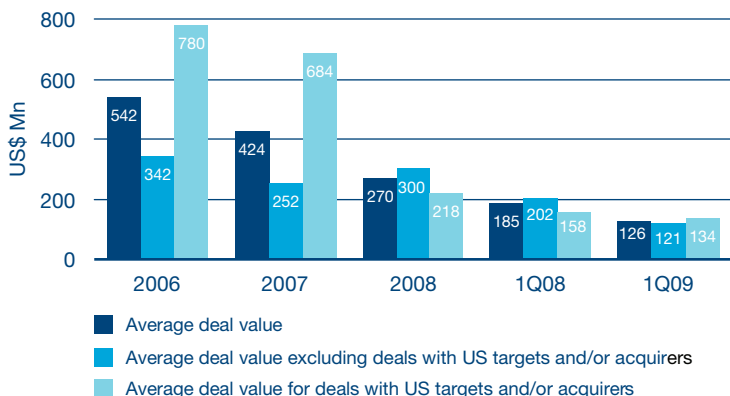
Deal activity by total deal value

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



Deal activity by average deal value

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



The total value for deals announced during first quarter 2009 with a disclosed value of at least \$50 million was approximately \$1.6 billion, substantially less than total deal value in first quarter 2008 (\$8 billion), representing a decline of 80 percent. From quarter to quarter, total deal value declined 47 percent, down from approximately \$3 billion in fourth quarter 2008. This decline was widespread geographically. Total value for deals with US targets and/or acquirers during first quarter 2009 was \$0.6 billion versus \$2.5 billion in first quarter 2008, representing a 76 percent decline, while the total deal value excluding deals with US targets and/or acquirers was \$960 million (versus \$5.5 billion in first quarter 2008) representing almost an 83 percent decline year over year.

Since 2006, the average deal value has dropped at an accelerating annual rate, declining 22 percent in 2007 and 36 percent in 2008. This trend has continued into 2009, with the average deal value in first quarter 2009 declining to \$126 million from \$270 million in 2008, a 53 percent decline. Sequentially, the average deal value in first quarter 2009 was 53 percent lower than the average deal value in fourth quarter 2008 (\$271 million). This negative deal value trend was in part due to lower market valuations for target firm assets, a general lack of liquidity, and greater corporate emphasis on cash flow management. The market's downward adjustment to asset prices was a global phenomenon, as the average value for deals with US targets and/or acquirers during first quarter 2009 was down 15 percent year over year and the average deal value excluding deals with US targets and/or acquirers declined 40 percent year over year.

Financial investors are confined to the sidelines

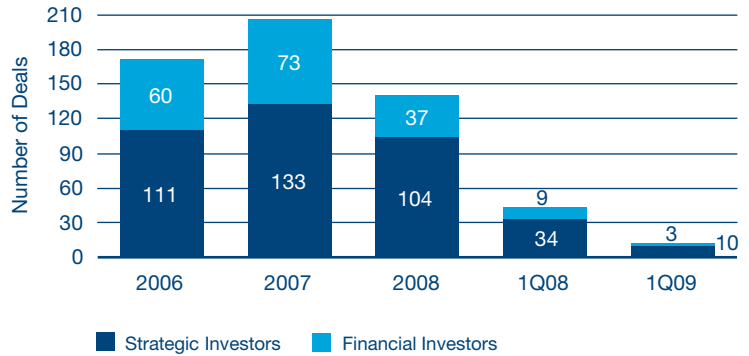
According to the Wall Street Journal, during first quarter 2009, 57 US-based private equity funds raised \$15.5 billion, approximately 80 percent less than the amount raised by 134 funds during first quarter 2008. Although this covers only US-based private equity firms, this trend is likely consistent around the world. In addition to this weak influx of capital to financial sponsors, the availability of credit has continued to be constrained and institutional investors' sentiments have remained low, leaving most of the deal making to strategic corporate buyers. Although the percentage of deals attributable to financial investor activity held roughly steady (23 percent in first quarter 2009 versus 21 percent in first quarter 2008), the number of deals declined substantially, from nine in first quarter 2008 to three in first quarter 2009. Comparing these results with 2006 and 2007—when financial buyers accounted for an average of 35 percent of deals—makes clear the degree to which financial buyer activity has been scaled back.

With financial investors on the sidelines, the lower demand for deals is putting downward pressure on market valuations. Nonetheless, a need to conserve cash, weak global demand, and tight credit have discouraged strategic buyers from deal activity as well. In first quarter 2009, the number of deals by strategic buyers with a value of \$50 million or more was 10 versus 34 in first quarter 2008 and 31 in first quarter 2007.

First quarter 2009 results also indicate that acquirers are purchasing minority stakes in targets more often, possibly to hedge market risks or to preserve cash. During first quarter 2009, minority stake purchases accounted for 31 percent of announced deals versus 19 percent in first quarter 2008 and 18 percent in 2008. We expect minority stake purchases to continue to account for a larger percentage of deals during the rest of the year as credit availability remains constrained and as strategic buyers look to limit risk.

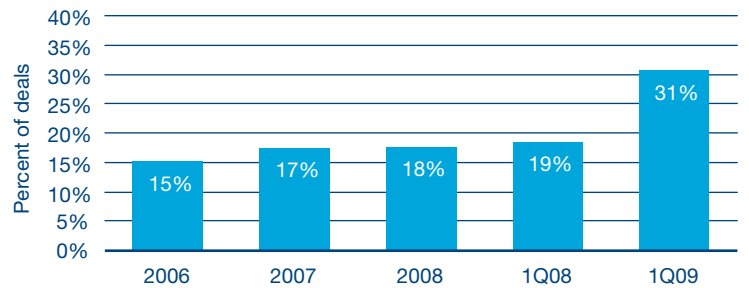
Deal activity by investor group

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



Minority state (<50 percent ownership) purchases

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



Large deals have all but dried up

Large deal activity, defined as those with a disclosed value of at least \$1 billion, has continued to decline dramatically from the levels seen in 2006 and 2007. There were 23 large deals in 2006, 17 in 2007, and five in 2008. In first quarter 2009, there were no large deals, and only 13 deals with a disclosed value greater than \$50 million. The decline in large deal activity is not surprising, given the weak and uncertain global economic conditions and persistent tight credit markets. We will not likely see a return of large deals until credit begins to flow more freely and a global economic recovery becomes more certain.

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

Deals greater than \$50 million – 1Q09

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ millions	Category
Mar	PSV Holdings Ltd	South Africa	landra Industries Ltd	United Kingdom	Pending	208.85	Industrial Machinery
Mar	Sensor Switch Inc	United States	Acuity Brands Inc	United States	Pending	207.52	Industrial Machinery
Jan	Hitachi Koki Co Ltd	Japan	Hitachi Ltd	Japan	Completed	182.48	Industrial Machinery
Mar	Scotsman Group LLC	United States	Braveheart Acquisition Inc	United States	Pending	160.00	Fabricated Metal Products
Feb	Bayou Cos LLC	United States	Insituform Technologies Inc	United States	Completed	132.50	Electronic & Electrical Equipment
Feb	SEN Corp	Japan	Sumitomo Heavy Industries Ltd	Japan	Completed	131.85	Industrial Machinery
Mar	Filtrona Extusion Inc	United States	Saw Mill Capital LLC	United States	Completed	115.00	Electronic & Electrical Equipment
Feb	Quqihar Heavy CNC Equip Corp	China	Zhejiang Tianma Bearing Co Ltd	China	Completed	102.50	Fabricated Metal Products
Feb	CI Kasei Co Ltd	Japan	ITOCHU Corp	Japan	Pending	99.40	Fabricated Metal Products
Feb	Praia do Morgado	Brazil	Cemig	Brazil	Completed	93.05	Rubber & Plastic Products
Jan	Citra Tubindo Tbk PT	Indonesia	Kestrel Wave Investment Ltd	Indonesia	Completed	88.49	Industrial Machinery
Mar	Tanshan Fengrun Hengfeng-Asts	China	Tanshan Fengrun Zhengda Iron	China	Pending	58.11	Fabricated Metal Products
Mar	Jinzhou Jin Tai Welding	China	Lincoln Electric Holdings Inc	United States	Pending	56.00	Industrial Machinery

Deal valuation, represented by deal value to sales, has adjusted downward

We calculated deal value to sales using both the median and mean (arithmetic average). Valuation statistics were available for at least 50 percent of the announced deals in each of the periods from 2006 through first quarter 2009 with values worth \$50 million or more, so this analysis should be fairly representative of the overall market.

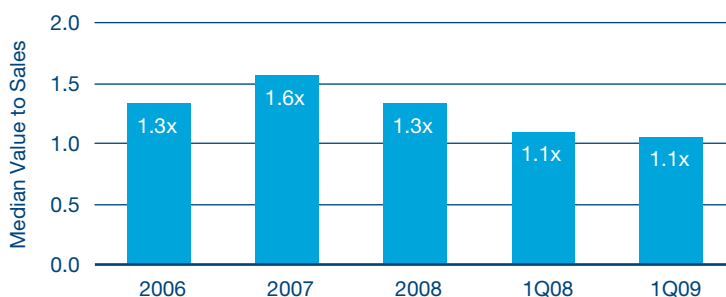
During first quarter 2009, the median deal value to target sales ratio for deals announced with values of \$50 million or more was 1.1x, 20 percent lower than 2008 multiples and 32 percent lower than the multiples in 2007. Using an adjusted mean, where we adjusted for extreme outliers, the first quarter 2009 deal value to sales ratio also contracted when compared with the first quarter 2008 (6 percent decline) and 2007 (18 percent decline). The average multiple was adjusted for extreme outliers defined as value to sales multiples equal to or greater than 10x.

It is not surprising to see that valuations, which peaked in 2007, have adjusted downward given the reduction in financial investor activity, weak economic conditions, and tight credit markets, all of which have put downward pressure on market prices and asset values.

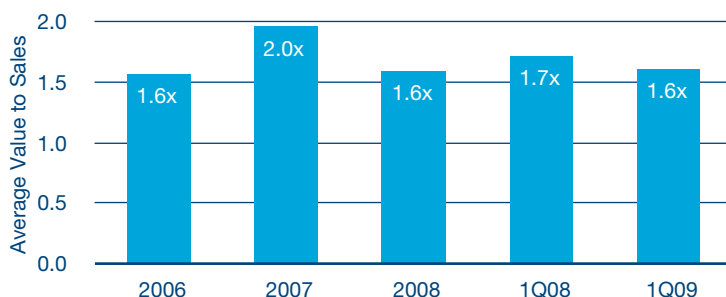
Deal valuation median value to sales and average value to sales

Measured by value to sales and average value to sales for deals worth \$50 million or more

Median value to sales multiples

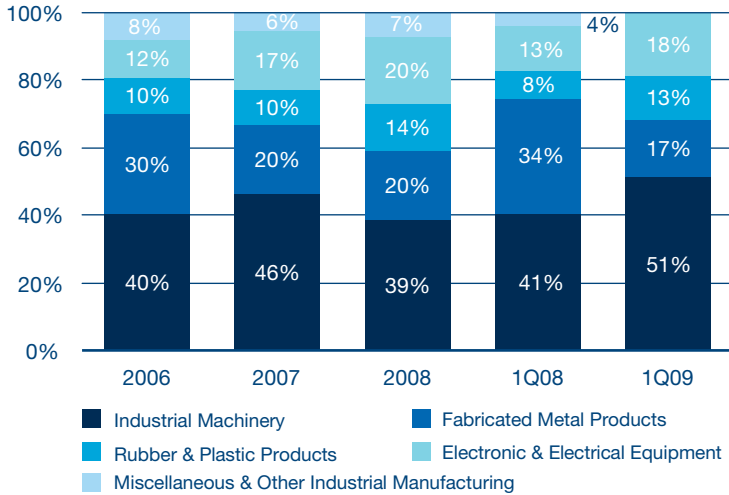


Average value to sales multiples



Deals by industrial manufacturing category

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



The industrial machinery category continues to be a strong driver of deal activity

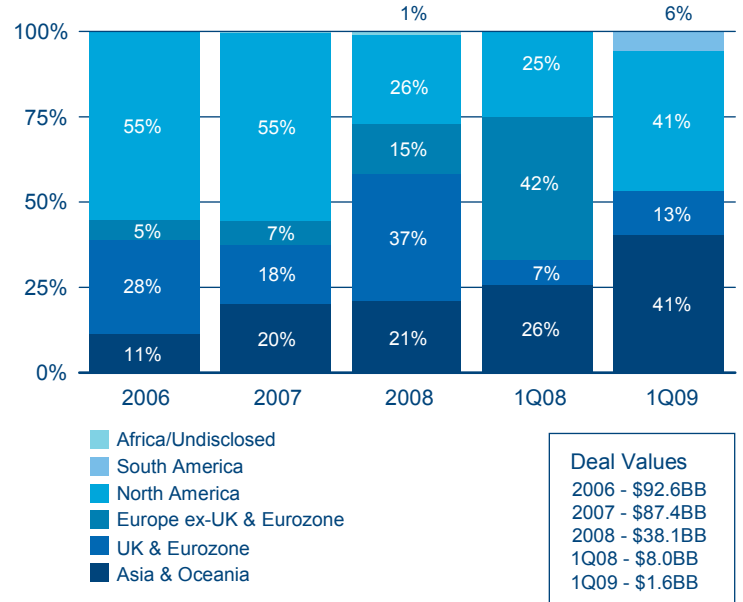
During first quarter 2009, 51 percent of deals with a disclosed value of at least \$50 million were in the industrial machinery category versus 41 percent in first quarter 2008. Most of the increase in the category was due to weakness in the fabricated metal products and the miscellaneous and other IM categories. Deal activity in fabricated metals as a percentage of total deals declined to 17 percent from 34 percent in first quarter 2008, and deal activity in miscellaneous and other industrial manufacturing declined to 0 from 4 percent in first quarter 2008. Deal activity in rubber and plastics increased to 13 percent from 8 percent in first quarter 2008, and deal activity in electronic and electrical equipment increased to 18 percent during first quarter 2009 from 13 percent in first quarter 2008.

Regional analysis

Buyers from the Asia & Oceania region drive deal activity

During first quarter 2009, 41 percent of deal activity (as measured by value of deals worth \$50 million or more) was attributable to Asia & Oceania buyers, a significant increase when compared with 26 percent in first quarter 2008 and an average 17 percent proportion from 2006 through 2008. Proportionally, North American buyers have continued to be very active participants in the M&A market as the percentage of value attributable to the region was 41 percent versus 25 percent in first quarter 2008 and an average 45 percent during the past three years. UK & Eurozone buyers have been proportionally less active as deal activity for this region declined to 13 percent from an average 28 percent during the past three years.

Regional distribution of deals by buyer region*
Measured by value of deals worth \$50 million or more

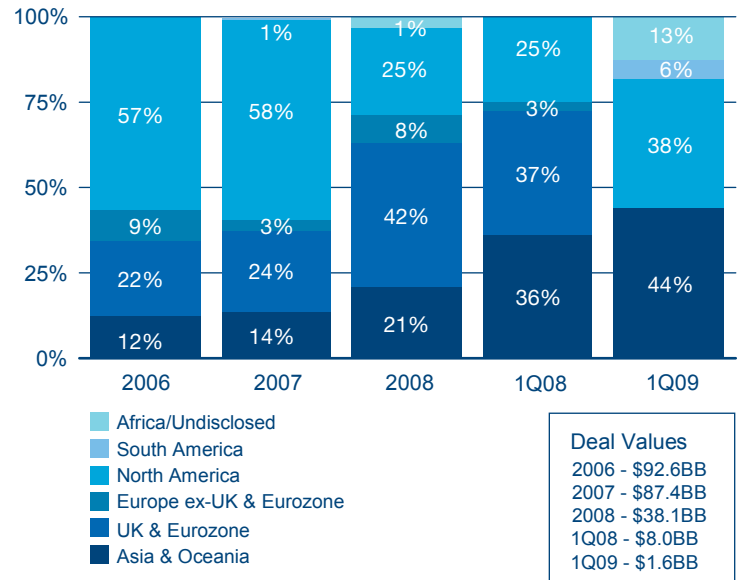


* Percentages may not sum to 100% due to rounding.

Investment interest builds in the Asia & Oceania region

In first quarter 2009, 44 percent of deals for targets (as measured by value of deals worth \$50 million or more) were in the Asia & Oceania regions. This compares with 36 percent in first quarter 2008 and an average of 16 percent from 2006 through 2008. There were no deals for targets in the UK and Eurozone region during first quarter 2009. This was a significant drop from the 29 percent average share of deals for the region during the past three years. Deals for targets in North America trended lower than the three-year average of 47 percent as 38 percent of first quarter 2009 deal activity was for North American targets.

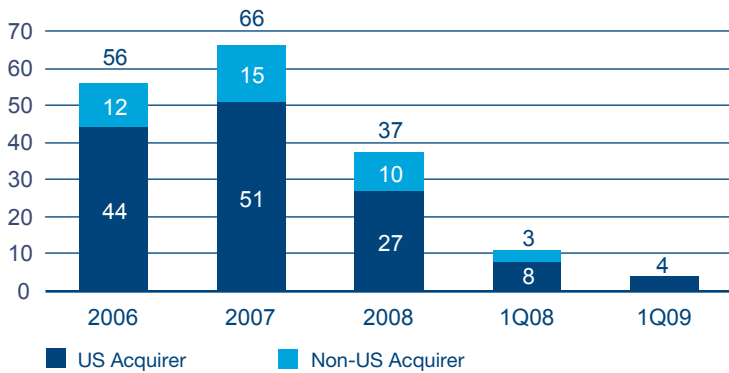
Regional distribution of deals by target region*
Measured by value of deals worth \$50 million or more



* Percentages may not sum to 100% due to rounding.

US versus non-US acquirers of US targets

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

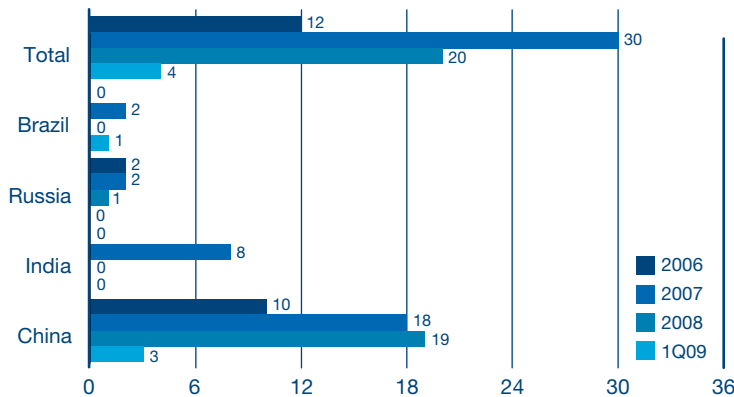


Non-US acquisitions of US targets grinds to a halt

In first quarter 2009, there were no cross-border deals for US targets. This compares with three deals during first quarter 2008, equating to 27 percent of all deals for US targets during that period, and 10 in all of 2008 (27 percent of all deals). Uncertainty regarding the depth and duration of the US economic downturn in the first quarter appears to have discouraged overseas acquirers.

Distribution of BRIC deals

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



Investment in China continues to lead BRIC activity

Analysis of BRIC (Brazil, Russia, India, and China) deal activity reveals the continuing consolidation of the IM industry within China. Of the four BRIC deals announced in first quarter 2009, three were for targets in China. This compares with five announced deals in first quarter 2008, four of which were also in China. The size and fragmentation of the Chinese IM market undoubtedly explains part of this trend, as does the relative credit availability in China versus much of the rest of the world in the first quarter. However, given the substantial growth opportunities all of the BRIC economies should provide in the long term, we believe M&A volume is likely to improve in all BRIC countries once macro conditions and business sentiments recover.

Economic stimulus: financial boon or added complexity?

In February 2009 President Obama signed into law the American Recovery and Reinvestment Act (ARRA). This act includes \$787 billion to invigorate the economy and spur job growth. In addition to the \$575 billion in spending, the bill sets aside \$212 billion for tax relief.

In the area of tax relief, ARRA contains provisions that extend “bonus depreciation.” For 2009, the legislation allows businesses to recover the costs of capital expenditures faster than the ordinary depreciation schedule allows by permitting an immediate deduction of 50 percent of the cost of depreciable property such as equipment.

The recovery act also allows certain eligible small businesses (ESB) to elect an increased net operating loss (NOL) carryback period for losses incurred in 2008. An ESB is generally a business that meets a \$15 million average annual gross receipts test. Eligibility under the enacted bill was significantly scaled back from the versions originally passed by the House and Senate, but many smaller companies, including corporations and partnerships, may still qualify.

By far, most of the recovery act money is for short- and long-term investments in infrastructure, renewable energy, research and development, education, and healthcare. It's the infrastructure, renewable energy, and research and development aspects of the bill that could have the largest implications for industrial products companies planning investments in capital improvements.

Because significant interaction with federal and state government agencies is required, it may be challenging for many manufacturing companies to apply for and secure a project grant. Among the most significant challenges:

- Understanding grant and contracting requirements at the federal, state, and local levels
- Staying abreast of oversight and reporting guidelines from all relevant levels of government
- Complying with the ARRA emphasis on transparency and accountability from the top down
 - Companies may be required to define the right measure and data at the start, collect the data, ensure transparency and post results as widely as possible
 - Companies implementing programs will have to anticipate and prepare for rigorous review by government inspector generals and the Office of Management and Budget (OMB). All will need to ensure accountability, consistency, controls, collaboration with auditors, and transparency

Key practices companies should keep in mind as they consider whether to apply for ARRA funding are:

Monitoring and tracking: Required reports and relevant data must be uploaded to the recovery.gov website. Additionally, dashboards will be needed for data management and analysis.

Governance: OMB compliance includes the creation of a matrix to document, track, and communicate ongoing project progress.

Risk management: A risk assessment for not successfully completing an ARRA-funded project must be completed. Each identified risk must also be categorized and scored based on likelihood and severity. Furthermore, companies must assess the adequacy of internal controls to mitigate risks.

Reporting and communication: Reporting and communication plans must identify what data elements are required, show where the data resides, and establish protocols for data collection across regions, programs, and bureaus.

Performance management: Companies must establish a baseline and track metrics on a continual basis throughout the project to show that progress is made toward recovery act goals.

Although it is difficult to predict the exact results of the economic stimulus package, ARRA is a regulation that is likely to affect companies across all sectors because it blends tax relief with incentives to invest in large capital improvement projects. In both respects, the act has the potential to be a positive force on the US economy.

PricewaterhouseCoopers specializes in services related to accounting for and managing the distribution of funds. We currently act as the Department of Treasury Office of Financial Stability's (OFS) core advisor on the development of OFS' control environment. PwC's roles include supporting the transactional processing and asset management activities of the \$700 billion Troubled Asset Relief Program (TARP). We are also closely involved in the September 11th Victims Compensation Fund and the FEMA Individuals and Households Program.

Speciality case study: Bonus depreciation provisions provide welcome tax relief

Client: Global manufacturing company

Client issue

Many manufacturing executives see the tax relief provisions contained in the economic stimulus plan as a way to balance cash savings so they will be well positioned when the economy rebounds. The economic stimulus legislation generally extends the 50 percent bonus depreciation from calendar year 2008 to include calendar year 2009 (the “bonus depreciation period”), whereby a taxpayer can accelerate the deduction of 50 percent of the acquisition cost of eligible property. Knowing how best to apply the provision so that deductions are accelerated and taxable income is reduced can become a complex undertaking for manufacturing companies that routinely spend millions on new equipment, especially where contracts to acquire property were entered into, or the manufacture, construction or production of the property begins, prior to the bonus depreciation period. In addition, companies must consider the impact of claiming bonus depreciation on other federal income tax provisions, including estimated tax computations, long-term contract accounting, domestic manufacturing deductions, etc.

Approach

A PricewaterhouseCoopers team of tax professionals was engaged to determine whether all or a portion of a US plant expansion for an industrial manufacturing company qualified for bonus depreciation. This client contracted with a third party to build the plant expansion prior to the bonus depreciation period, and the manufacture of the property also began before the bonus depreciation period. The team was able to identify a significant amount of qualifying property that was eligible for bonus depreciation. In addition, the team advised the company on how the bonus depreciation deductions would affect their estimated tax payments and identified strategies that reduced the company’s 2009 estimated tax payments.

Impact

The PwC team worked with the client to determine when assets were acquired and also analyzed purchase contracts to ensure adherence with the bonus depreciation qualification rules. Based on PwC’s findings and analysis, the client will realize a significant reduction in their taxable income, and therefore defer payment of cash taxes, through the accelerated write off of 50 percent of the cost of eligible property placed in service in 2009.

PricewaterhouseCoopers' industrial manufacturing experience

Deep industry experience

PwC continues to have the leading Fortune Global 500 market share in the industrial manufacturing industry. Our Industrial Manufacturing Practice is comprised of a global network of industry professionals who provide assurance, tax, and advisory services to public and private companies around the world. Central to the successful delivery of our services is an in-depth understanding of today's industry issues, in addition to a wealth of specialized resources and "best practices" that help in solving complex business challenges. Our highly skilled team encourages dialogue on top-of-mind trends and issues through active participation in industry conferences and associations, as well as through industry-focused publications and web forums. To address your industry needs wherever they arise, our specialists are concentrated in areas where the industrial manufacturing industry operates today and in the emerging markets where it will operate in the future.

Quality deal specialists

PwC's Transaction Services Practice, with more than 3,800 dedicated deal specialists worldwide, has the right industry and functional experience to advise you on all factors that could affect the transaction, including market, financial accounting, tax, human resources, operating, IT and supply chain considerations. Teamed with our Industrial Manufacturing Practice, our deal specialists can bring a unique perspective to your deal, addressing it from a technical aspect as well as from an industrial manufacturing industry point of view.

Local coverage, global connection

In addition to having more than 9,000 professionals who serve the industrial manufacturing industry, our team is part of an Industrial Products Group that consists of more than 28,700 professionals, including approximately 16,700 providing Assurance services, more than 7,000 providing Tax services, and 5,000 providing Advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources and know-how in the most effective and timely way.



Contacts

PwC Global Industrial Manufacturing practice

Our Industrial Manufacturing practice comprises a global network of industry professionals serving manufacturing clients strategically located in more than 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 deals 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 March 31, 2009, 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 & 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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