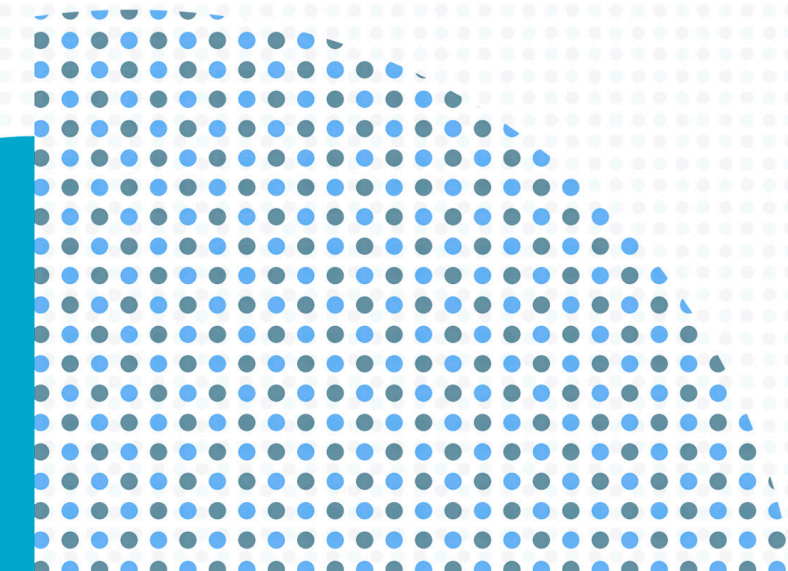


M&A

**in the global steel industry
2015-2020**

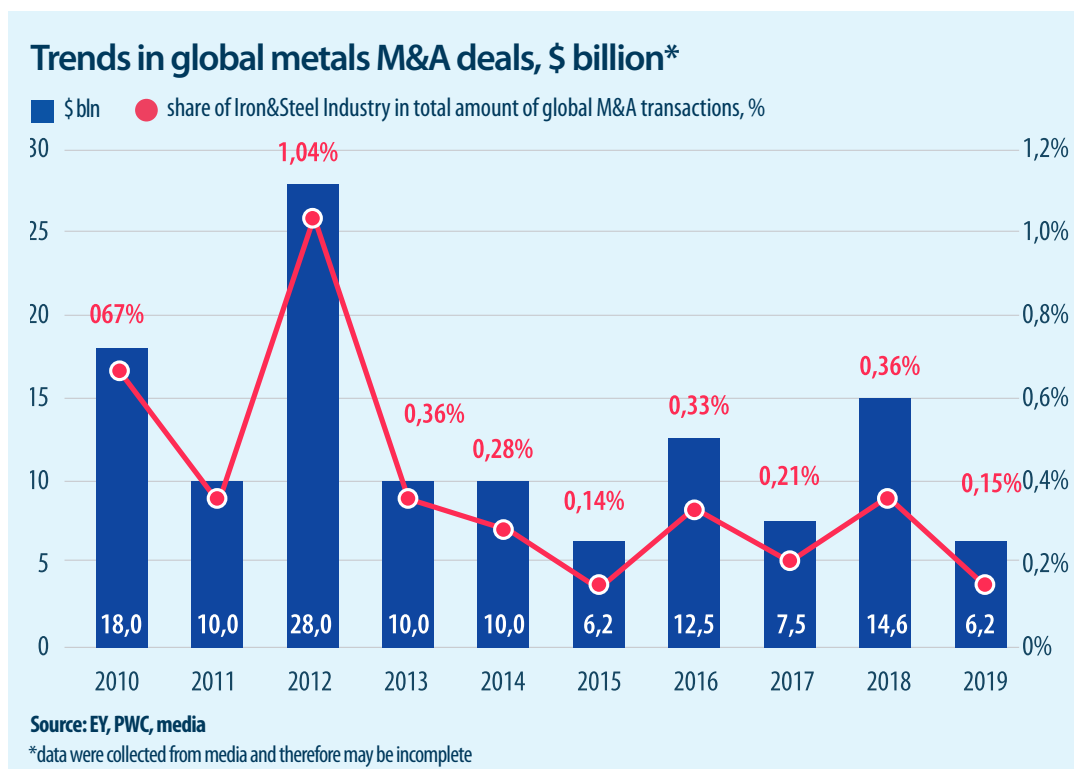


M&A in the global steel industry

In 2015–2019, global merges and acquisitions in the steel industry were estimated at \$47 billion in total, or \$10 billion per annum. In 2019, M&A transactions amounted to \$6.2 billion, 40% down an average and more than half as much as in 2018.

The number of transactions in the sector is small, up to 10 per annum. Therefore, one or two major deals could considerably increase the overall annual 'price list'. Without regard for 'mega deals' exceeding \$2 billion, M&A transactions in the industry average \$6–7 billion per annum.

\$47 bln - amount of M&A transaction in 2015-2019



As for global M&A activity, the value of deals in the steel industry is miserable, 0.4% of the total global deals on average, much lower than the industry's 0.7% share in global GDP (with regard to direct effect only).

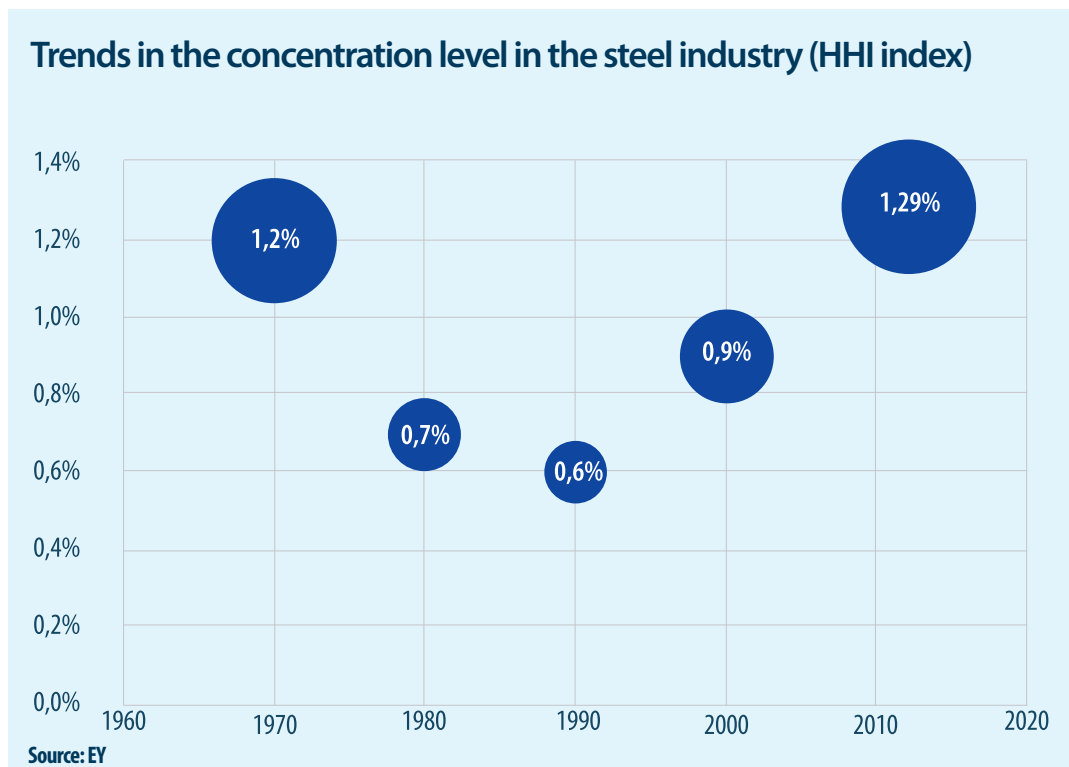
Parties to transactions are specialized companies only. There are virtually no speculative transactions, new players enter the market in very rare cases. One of the recent examples is Liberty House Limited.

M&A trends in the industry in 2018–2020:

- Deals with troubled companies on deep markets;
- Deals to consolidate the industry in China;
- Deals to diversify U.S. companies' portfolios.

Industry concentration

M&A activity in the industry is historically low notwithstanding the low level of concentration. The level of concentration in the industry has not changed since the 1970s.



Factors that may facilitate M&A activity in the industry:

1. Protectionism may prompt companies to M&A deals to enter the market.
2. Changes in technologies may encourage the creation of consortia and alliances.
3. Aiming to further improve the product portfolio, deepen metal conversion.
4. Expansion of Chinese companies.
5. Response to expansion of Chinese companies.

No significant change in M&A activity in the industry is anticipated. The above risks will reduce companies' appetite for concentration. In the current difficult market conditions, the industry sets other priorities.

Alternatively, an increase in the number of M&A deals may be due to troubled assets, but this will not affect their value. The only exception may be 'mega deals' in China where market players seek to dominate the industry.

1,29%

**HHI Index in 2014,
the same as in 1970s**

Key drivers of M&A success and reasons for weak M&A activity in the steel industry

23%

of respondents of a survey by JP Morgan deem effective integration of acquired businesses to be the most important driver of M&A success

The steel market is stagnating. The World Steel Association's long-term forecast for global steel consumption growth is 1% per annum. Therefore, companies' development strategies are targeted at increasing competitiveness, not growth.

Given excess capacity, it makes no sense to buy additional capacities when buyer's capacities aren't enough unutilized. This does not cancel transactions aimed at entering new markets, expanding the range of products or deepening metal conversion, but narrows down the M&A market possibilities.

Companies do not seek to take risks. Their balance sheets show huge debts. A Net Debt to EBITDA ratio in the industry has been exceeding 4.0 for a number of years, whereas the maximum acceptable value is 3.0. Furthermore, the industry badly needs investment in the wake of the decarbonization and digitalization trends. Purchase of obsolete assets means additional needs for investments.

19%

of respondents ranked economic certainty second by importance for M&A success

Uncertainty in the global economy is growing. The current economic cycle has been lasting for 11 years. A recession is expected every year, with a likelihood growing every year. The sector is critically dependent on economic cycles.

18%

of respondents highlighted adequacy of valuation as most significant

High price volatility in the markets for metal products complicates the assessment. Meanwhile, company valuations seem adequate. Average EBITDA multiples are 5.0–5.5. At the same time, most M&A transactions over the past few years have been concluded with companies with troubled assets from large steel markets where buyers see a sales potential. Such transactions are concluded at the lowest price, often on conditions of debt repayments or investment liability.

16%

of respondents share the opinion that M&A success depends on obstacles in the rules of the regulator

Regulatory policies vary by region. M&A deals in Europe are impeded by antitrust authorities. A striking example is the blocked steel merger between Tata Steel and ThyssenKrupp. ArcelorMittal had to sell 3 plants to receive the right to buy Ilva. Approval from trade unions is also needed for M&A deals. Liberty House had some difficulties in negotiating the purchase of ArcelorMittal's plants.

Stimulative regulation policy is not a guarantee of M&A activity either. Mergers and acquisitions in China's steel industry are being encouraged by the government to restructure the sector and fight excess capacity. The Chinese government set a target — the top 10 companies should hold a 60% stake of the market by 2025 — thus encouraging consolidation. Although Chinese companies closed 40% of a total of global M&A deals in the steel industry, their number is still small. As a rule, transactions of Chinese companies were focused on domestic businesses. Still, it is important to note that in the past year or two, China targeted a number of European companies (British Steel, Huta Czysta).

List of largest M&A deals in the sector

Data	Target name	Target region	Acquirer name	Acquirer region	Deal value, \$ million	Source
2020E	British Steel	United Kingdom	Jingye Group	China	65	CMI
2020E	Huta Czechohova	Poland	Sunningwell International	China	60	CMI
2020E	Magang	China	Baowu Steel Group	China	N/A	CMI
2020E	COS Târgoviște	Romania	Sunningwell International	China	42	CMI
2020E	Ahmsa	Mexico	Techint Group	Italy/Argentina	3500	CMI
2019	Galati, Skopje, Piombino	EU	GFG Alliance	United Kingdom	841	PWC
2019	Maashan Iron&Steel	China	Baosteel	China	660	PWC
2019	Al Ezz Dekheila Steel	Egypt	Al Ezz Flat Steel	Egypt	425	PWC
2019	Ipsco Tubulars	United States	Tenaris	Luxemburg	1200	PWC
2019	AK Steel Holdings	United States	Cleveland Cliffs	United States	1100	PWC
2019	Shougang Jingtang Iron & Steel Corp	China	Investor Group	China	711	PWC
2019	Big River Steel	United States	US Steel	United States	700	PWC
2019	Jiangyin Xingcheng Special Steel Works	China	CITIC Pacific Special Steel Group	China	520	PWC
2019	Bayou Steel	United States	GFG Alliance	United Kingdom	28	CMI
2018	Nisshin Steel Co	Japan	NSSMC	Japan	867	Deloitte
2018	Essar Steel India	India	ArcelorMittal&NSSMC	N/A	6829	PWC
2018	Bhushan Steel	India	Tata Steel	India	5216	PWC
2018	Electrosteel Steels Co	India	Vedanta Ltd	India	813	PWC
2018	Angang Group Chaoyang Iron&Steel	China	Angang Steel Co	China	883	PWC
2017	Thyssenkrupp Companhia Siderurgica	Brazil	Ternium SA	Argentina	1648	Deloitte
2017	Independence Tube Corporation	United States	Nucor Corp	United States	435	Deloitte
2017	Jindal Stainless Limited	India	Investor Group	N/A	132	Deloitte
2017	Tata Steel UK	United Kingdom	Liberty House Limited	N/A	125	Deloitte
2017	Thyssenkrupp AG	Germany	Tata Steel	India	N/A	PWC
2017	Ilva SpA	Italy	ArcelorMittal	Luxemburg	2031	PWC
2017	Thyssenkrupp Slab International	Brazil	Ternium SA	Argentina	1805	PWC
2017	Dongbei Special Steel Group	China	Investor Group	China	842	PWC
2017	Nanjing Nangang Industry	China	Investor Group	China	546	PWC
2016	Wuhan Iron&Steel Co	China	Baoshan Iron&Steel Co	China	4157	PWC
2016	Ultimate Century Investments	China	Shougang Holdings	China	2456	PWC

Список крупнейших M&A сделок в отрасли

Data	Target name	Target region	Acquirer name	Acquirer region	Deal value, \$ million	Source
2016	Shandong Iron&Steel	China	Shandong Iron&Steel Group	China	2313	PWC
2016	TF Holdings	Dem Rep Congo	Investor Group	China	1187	PWC
2016	Solb Misr Co	Egypt	National Service Prolect Organization	Egypt	1135	PWC
2016	Xinjiang Bagang Nanjiang Iron&Steel	China	Xinjiang Ba Yi Iron&Steel	China	445	Deloitte
2016	Vallourec (13,85%)	France	NSSMC	Japan	390	Deloitte
2016	Republic Conduit	United States	Nucor Corp	United States	335	Deloitte
2016	ArcelorMittal Zaragoza	Spain	Bipadosa SA	Spain	90	Deloitte
2016	Železara Smederevo	Serbia	HBIS Group	China	46	CMM
2015	Hyundai Hysco Co Ltd	South Korea	Hyundai Steel Co	South Korea	1148	PWC
2015	North Star Bluescope Steel	United States	BlueScoop Steel Ltd	Australia	760	PWC
2015	Shangai Krupp Stainless Co Ltd	China	Lujiazui International Trust Corp Ltd	China	420	PWC
2015	Ningxia Xinri Hengli Steel Wire	China	Shangai Zhongneng Enterprise Development	China	210	PWC
2015	Shougang Jingtang Iron & Steel Corp	China	Beijing Shougang Co Ltd	China	1652	PWC
2015	Xining Special Steel Co Ltd	China	Investor Group	China	1974	PWC

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