

M&A to roar back from pandemic lull

Deal activity is coming back strong as economies recover, CEO confidence rises and corporates sharpen their focus even more after the challenges from COVID-19

Joseph Chang New York

The enemy of mergers and acquisitions (M&A) is uncertainty, and the pandemic dished that out in spades. But today, with major economies led by the US recovering and chemicals companies generating robust earnings and cash flow, deal activity is poised to roar back through 2021.

Rising CEO confidence on the business outlook, plentiful financing at low interest rates and healthy deal valuations are driving broad-based activity but especially in specialty chemicals and ingredients.

"It's a very robust market. CEOs are confident, there's availability of low-cost capital and business performance is strong almost across the board. Plus, transaction multiples are at historical highs across many segments, so sellers are motivated," said Leland Harrs, managing director at investment bank Houlihan Lokey.

Business performance would be even stronger if not for supply chain constraints, which should loosen up at some point, he noted. But even with supply chain issues and rising raw material costs, chemicals companies are generally not being squeezed.

"Price increases are being passed on with ease, leading to great margins for companies," said Harrs.

High deal multiples draw out sellers

High demand for chemicals assets and resulting elevated transaction valuations are drawing out more sellers among both private equity and corporates.

"Many sponsors are evaluating their portfolios' performance and determining it's an optimal time to exit, despite shorter hold periods,

Leland Harrs

Managing director, Houlihan Lokey

"CEOs are confident, there's availability of low-cost capital and business performance is strong almost across the board"



Deals to roar through 2021

while corporates are pursuing strategic moves on both the buy and sell side, said Alain Harfouche, managing director at investment bank Guggenheim Securities.

"M&A activity is expected to remain elevated with several assets to hit the market in the coming few months. Whether it's sponsors seeking to lock in returns or corporates divesting non-core businesses, most sellers are rushing to the market to capitalise on frothy valuations and favorable demand trends. Tax law changes are increasingly a key consideration as well," he added.

The earnings growth story has been generally favourable for the chemicals sector, driven by recovery in core end markets such as housing, consumer goods and automotive, even amid supply constraints. In addition, abundant and cheap financing continues to create a conducive environment for high deal activity, he noted.

"Holistically, sentiment around demand is very bullish across the board. These are very exciting times for the industry," said Harfouche.

Corporates/private buyers circle

Corporates have largely navigated the COVID-19 crisis well and emerged with strong balance sheets. Some that sat on the sidelines amid the uncertainty are now looking at M&A

opportunities, he noted. And private equity firms are also increasingly active on both the buy and sell side.

"In recent processes, we've seen certain sponsors outbid synergistic corporates on high conviction opportunities where they can put money to work," said Harfouche.

Alain Harfouche

Managing director, Guggenheim Securities

"Most sellers are rushing to the market to capitalise on frothy valuations and favourable demand trends"



"From a valuation perspective, we're seeing a premium on assets relative to where they have traded historically. Deal multiples have trended upward into the mid-to-high teens for coveted businesses in specialty and pharma ingredients and engineered materials," he pointed out.

"For private equity, it's challenging to buy businesses because multiples are inflated, but they are finding a way to prevail in some auctions. When corporates step up, they are hard

» to beat," said Harris from Houlihan Lokey. US-based Ashland's performance adhesives business should attract substantial interest from strategic buyers, he noted. The unit, which had \$323m in sales in the last 12 months to March 2021, produces pressure sensitive adhesives, laminated coatings and adhesives, and structural assembly adhesives for building and construction and transportation markets.

Telly Zachariades
Managing director, Piper Sandler

"M&A is being predominantly driven by the same factors we've now been witnessing for several years"



Ashland on 25 May announced a strategic review of its performance adhesives business, including a potential sale. This may be the last major divestiture for the company, which is focusing on additive ingredients in its core pharmaceutical, personal care and coatings businesses.

Ashland CEO Guillermo Novo cited a sup-

portive market for a potential sale, including strong financing availability at low interest rates and improving global macroeconomic conditions. Other assets hitting the market in the adhesives, formaldehyde resins and composite resins space will likely attract more interest from private equity buyers, the banker noted.

"Strategics are well capitalised and back with more confidence while financial sponsors are as active as ever with record amounts of capital to invest. The M&A market is coming out of the coronavirus pandemic strong," said Harris.

Capital gains tax threat add fuel

The potential for a higher capital gains tax at some point during the US Biden administration is giving an extra charge to M&A activity.

Even as the US administration faces challenges in its plan to raise capital gains taxes to pay for additional government programs, "people are still concerned about the potential for higher taxes in 2022, so there's a race to get things buttoned up and closed by year end", said Telly Zachariades, managing director at Piper Sandler Chemicals and Materials.

"M&A is being predominantly driven by the same factors we've now been witnessing

for several years, with a bit of a boost from the post-COVID-19 GDP upswing and the looming potential capital gains tax increase," said Zachariades.

New managements drive M&A

"A lot of assets are coming to market from private equity, and at the same time, many strategics are taking advantage of the strong credit and equity markets to be very active in the M&A space. A great predictor of M&A activity is the appointment of a new CEO, who takes a fresh look at a company's strategy, especially if they aren't hired from within," said Federico Mennella, managing director and co-head of the global chemical and materials practice at Rothschild & Co.

US-based Trinseo under CEO Frank Bozich who joined the company in March 2019 from SI Group, is making multiple moves.

On 21 May, the company agreed to sell its synthetic rubber business based in Germany to Poland-based Synthos for around \$491m. On 3 May, it completed the acquisition of France-based Arkema's polymethyl methacrylate (PMMA) business for €1.137bn.

And as mentioned, Ashland is seeking a sale of its performance adhesives business under CEO Guillermo Novo, who joined the board in May 2019 from Versum Materials and became CEO at the end of 2019.

Private equity active and flexible

On the private equity side, more flexible deal structures are also appearing, the Rothschild & Co banker noted, citing European private equity firm Ardian's acquisition of a 50% stake in ANGUS Chemical in October 2020 from US-based Golden Gate Capital, which is retaining a 50% stake, and the \$4.2bn (\$4.6bn) acquisition of Lonza's Specialty Ingredients business by Bain Capital and Cinven.

Private equity firms Black Diamond and InvestIndustrial also had such a partnership in their joint ownership of UK-based specialty chemicals company Polynt-Reichhold. On 2 July Black Diamond announced it will buy out InvestIndustrial's stake and refinance existing debt at the company through a €1.3bn debt issuance.

Private equity's success in chemicals deals has attracted many new players into the field.

"Ten years ago there were far fewer specialised private equity groups in chemicals. Now there are a lot, including European groups coming into the US market," said Rothschild & Co's Mennella.

Private equity firms are also putting chemicals assets on the market in the earlier stages of their holding period of five to seven years to take advantage of strong earnings and healthy credit markets. Plus, firms seeking to raise new capital have decided to monetise some investments to establish or boost track records, he pointed out.

Additives and ingredients M&A boosting overall deal multiples

Additives and ingredients businesses are commanding high transaction multiples, boosting overall chemicals M&A valuations.

"Colour additives and food ingredients businesses continue to obtain high valuations," said Allan Benton, vice chairman at investment bank Scott-Macon.

"These products represent small components of a pound of a customer's finished product but as essential ingredients they command a good price. Companies can pass along price increases very easily," he added.

UK-based Kerry Group's planned acquisition of US-based food ingredients and preservatives company Niacet from SK Capital for \$1.015bn represents an EV/EBITDA multiple of 15.4x based on expected 2021 earnings.

Allan Benton
Vice chairman, Scott-Macon

"Additives have been strong businesses getting high multiples while food ingredients continue to be attractive"



In May, Prince International, owned by private equity firm American Securities, announced the acquisition of US-based functional coatings and colours firm Ferro for \$2.1bn, or 12.4x trailing 12-month EBITDA.

Earlier in April, Standard Industries (40 North) announced the planned acquisition of US-based fluid catalytic cracking (FCC) additives and catalysts company W.R. Grace for \$7.0bn, or 16.7x 2020 adjusted EBITDA. However, 2020 results were impacted by the pandemic. The multiple on 2019 EBITDA is a more mod-

est but still healthy 12.8x.

"The median EBITDA multiple for specialty chemical deals that closed in the first half of 2021 was 14.4x, above the five-year median through 2020 of 12.2x.

However, the number of closed transactions for which information is available was small," said Benton.

"The significant number of transactions announced in the first half of 2021 and the fact that the US economy is coming back strong indicate that the volume of transactions completed in 2021 should be back to the high levels of the years before 2020," he added. ■

SPAC options for private equity

Private equity owners of chemicals assets are also exploring potential exits via mergers with special purpose acquisition companies (SPACs).

"Several private equity investors are eyeing SPACs for exit options. SPACs can be attractive alternatives," said Bernd Schneider, managing director at investment bank Stifel.

SPACs, which are mainly a US phenomenon, can also be useful for valuation arbitrage, as deal and trading multiples tend to be higher in the US than in Europe, the Frankfurt, Germany-based banker added.

"This way the private equity seller can kill two birds with one stone - it gets another exit option and might take advantage of geographic arbitrage," said Schneider.

Federico Mennella

Managing director, Rothschild & Co

"A great predictor of M&A activity is the appointment of a new CEO, who takes a fresh look at a company's strategy, especially if they aren't hired from within"



Thus far, there have been only three chemicals-related SPACs completed - bio-based plastics and chemicals companies Danimer Scientific and Origin Materials, and plastics recycling company PureCycle Technologies.

While there is yet to be a mature chemicals asset going public through a SPAC, "there are discussions taking place in sub-sectors such as functional resins and water treatment", said Schneider.

In a typical SPAC transaction, the SPAC - a publicly traded blank check company - merges with a target company using cash on hand, along with additional funding via a PIPE (private investment in public equity) from other investors. Once the merger is complete, the target company has gone public.

While most SPACs have involved technology and biotechnology start-ups or companies in sexy new businesses such as electric vehicles (EVs), electric air taxis, space tourism and rocket launches, there have been a few deals involving more down-to-earth businesses.

For example, SPAC Landcadia Holdings III is in the process of merging with US-based hardware and home improvement company Hillman Group, which produces latches, nails, screws, bolts and keys, among other items. Hillman is owned by private equity firm CCMP Capital Advisors.

Deals to become more prevalent

Cross-border M&A will become more prevalent as companies seek to localise supply chains and boost their presence in fast-grow-

Private owners of US chemicals firms see opportunities for exit

Private owners of US chemicals companies are seeing greater opportunities to sell this year as the M&A market is active and financial performance over the past 12 months excludes the worst of the lockdowns, making financing more available, an investment banker said on Thursday.

"Private business owners are continuing to be contacted by buyers, including on the private equity side. For those who thought about selling last year, now that conditions have reversed, there's the opportunity to come to market," said Chris Cerimele, managing director at investment bank Balmoral Advisors.

"There's also some fatigue after dealing with COVID, where it now may be time to execute a sale," he added.

Financing for buyers to

acquire such businesses should also become more available as earnings in the US in the past 12 months were not as impacted by the Covid lockdowns.

"Lenders will look back at historical performance, and now we're at a point where the COVID lockdowns in Q1 and Q2 2020 are rolling out of the last 12-month period. This will make it easier for buyers to obtain financing," said Cerimele.

While the second half of 2020 still saw some coronavirus impacts, they were not as severe, he noted.

Sellers of chemicals assets should find ready buy-

ers in an active market, said the banker.

"Some private equity firms were active in 2020 but many found conditions too hard to predict and sat on the sidelines. They're all back now with plenty of capital and trying to make up for it in 2021," said Cerimele.

Deal activity really started to pick up in late January and early February with an unusually high level of new M&A efforts ramping up or restarting after the coronavirus pause. That big wave continues to work its way through the system today, he noted. ■

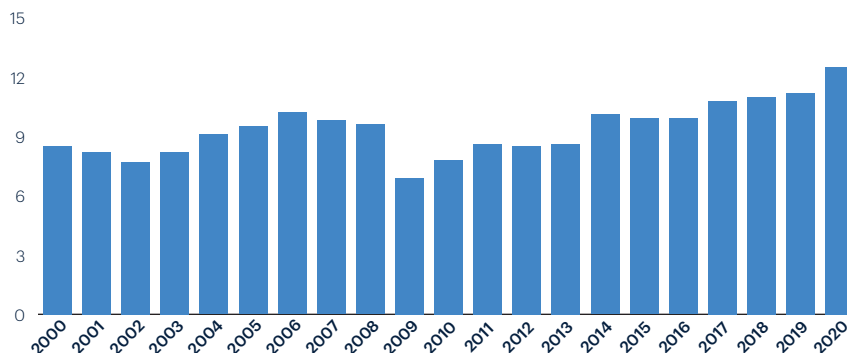
Chris Cerimele

Managing director, Balmoral advisors

"Private business owners are continuing to be contacted by buyers, including on the private equity side"



Chemical company average transaction EBITDA multiples



Note: Disclosed transactions around \$200m or above
Source: The Valence Group of Piper Sandler

ing economies, including the US. "We continue to see growth in cross-border M&A, and we notice a growing percentage of transactions involving Asian players," said Rothschild & Co's Mennella.

"In the long term, Asia is becoming a more relevant player in the chemical space and already we are seeing Asian companies in M&A processes that we haven't seen in the past," he added.

Whereas Asia-based buyers typically have

come from Japan or South Korea, today there are potential buyers from China, India, Thailand and Malaysia, as well as the Middle East. Already, Asia accounts for about 30% of chemicals M&A by value and even more by volume, the banker pointed out.

Thailand-based Indorama in mid-June closed on its acquisition of US-based Carbon-Lite's recycled polyethylene terephthalate (PET) plant in Dallas, Texas for \$63.8m.

Indorama is also in exclusive talks to buy

» Brazil-based surfactants producer Oxiteo, which has production facilities in Brazil, the US and Mexico. If successful, this would build on its \$2.0bn acquisition of US-based Huntsman's surfactants and intermediates business in January 2020.

Asia is also still an attractive market for US and European buyers seeking to enlarge their footprint in faster growing regions without having to export long distances.

On 30 June, US-based LyondellBasell announced the acquisition of Malaysia-based PolyPacific Polymers, a polyolefins compounder with 25,000 tonnes/year of capacity.

The renewed focus on M&A among Asia and Middle East buyers is also part of the maturation process of companies in emerging markets. "In the past, many Asia and Middle East-based companies were focused on building their own plants. Now M&A is part of their toolbox," said Mennella.

These companies are also being more flexible in their approach, working in partnership or taking minority stakes in companies, such as what Saudi Arabia-based SABIC,

Bernd Schneider
Managing director, Stifel

"This way the private equity seller can kill two birds with one stone - it gets another exit option and might take advantage of geographic arbitrage"



now part of Aramco, has done with Switzerland-based Clariant.

In March 2020, SABIC upped its stake in Clariant from nearly 25%, to 31.5% stake, just below the one-third threshold above which the investor must make a takeover offer under Swiss law.

An example on the private equity side is Japan-based Mitsubishi Corp which has long been a strategic partner and the largest original investor in One Rock Capital Partners, noted the banker.

One Rock has been very active in the chemicals space. In June 2021, it agreed to

buy Eastman Chemical's rubber additives business for \$800m. In February 2020, One Rock acquired US-based specialty chemicals company Innophos Holdings for \$932m. In March 2019, it bought Nexeo Solutions' plastics distribution business for \$640m.

"One Rock benefits from its relationship with Mitsubishi, which provides industry knowledge and contacts for the private equity group when needed. It's a symbiotic model," said Mennella.

Piper Sandler's Zachariades also sees Asia-based chemicals companies - particularly those from South Korea, Japan, Indonesia and Thailand - more active on the buy side, with a bias towards US assets where the economic growth outlook is more robust.

Latin America could also see significant deals in 2021 with Asia and Middle East-based buyers in the mix, he noted.

Along with Thailand-based Indorama in exclusive talks with Brazil-based Ultrapar to buy its surfactants business Oxiteno, Brazil's Braskem is still up for sale by owners Novonor (formerly Odebrecht) and Petrobras. UAE sovereign »

Select major deals announced or closed 2021

Announced	Completed	Buyer	Target	Seller	Price, local	Price, \$m	Sales, local	Sales, \$m	Business	Countries
16-Dec-19	1-Feb-21	IFF	Nutrition & Biosciences business	DuPont	\$26.2bn	26,200	\$6bn	6,000	Nutrition and biosciences	US/US
26-Apr-21	Pending Q4 2021	Standard Industries (40 North)	W.R. Grace	-	\$7bn	7,000	-	-	Specialty chemicals and catalysts	US/US
6-Jul-21	Pending end 2021	Platinum Equity	Solenis	Clayton, Dubilier & Rice/BASF	\$5.25bn	5,250	\$2.8bn	2,800	Water treatment and pulp and paper chemicals	US/US
29-Jun-20	4-Jan-21	INEOS	Aromatics and acetyls business	BP	\$5bn	5,000	-	-	Aromatics and acetyls	UK/UK
8-Feb-21	2-Jul-21	Bain Capital/Cinven	Specialty ingredients business	Lonza	Swfr4.2bn	4,750	€1.07bn	1,308	Microbial control chemicals, custom manufacturing of specialty chemicals and composites for electronics, aerospace, food and agrochemicals	US/Switzerland
8-Mar-21	1-Jul-21	DuPont	Laird Performance Materials	Advent International	\$2.3bn	2,300	\$465m	465	Electromagnetic and thermal shielding products	US/US
21-Jun-21	Pending H2 2021	Westlake Chemical	North America building products unit	Boral	\$2.15bn	2,150	\$1.1bn	1,100	Building products including vinyl siding and windows	US/Australia
11-May-21	Pending Q1 2022	Prince International Corp	Ferro	-	\$2.1bn	2,100	\$959m	959	Functional coatings and colour solutions	US/US
30-Sep-20	1-Apr-21	Covestro	Resins & functional materials unit	DSM	€1.61bn	1,969	€1bn	1,223	Sustainable coatings resins and functional materials	Germany/Netherlands
4-Feb-21	10-Jun-21	PPG Industries	Tikkurila	-	€1.52bn	1,859	€582m	712	Paints and coatings	US/Finland
29-Aug-19	30-Jun-21	DIC Corp	Pigments business	BASF	€1.15bn	1,406	€1bn	1,223	Pigments	Germany/Japan
14-Dec-20	3-May-21	Trinseo	Polymethyl methacrylate (PMMA) business	Arkema	€1.137bn	1,390	-	-	Polymethyl methacrylate (PMMA)	US/France
20-May-21	Pending H2 2021	Saint-Gobain	Chryso	Cinven	€1.02bn	1,247	€400m	489	Construction chemicals	France/France

Select major deals announced or closed 2021

Announced	Completed	Buyer	Target	Seller	Price, local	Price, \$m	Sales, local	Sales, \$m	Business	Countries
1-Jul-21	Pending Q4 2021	MKS Instruments	Atotech	The Carlyle Group	\$1.234bn	1,234	\$5.1bn	5,100	Specialty process chemicals, advanced electroplating solutions	US/Germany
30-Jun-21	Pending Q4 2021	Celanese	Santoprene TPV elastomers unit	ExxonMobil	\$1.15bn	1,150	-	-	Thermoplastic Vulcanizates (TPV) for construction, appliance, medical, and industrial	US/US
1-Mar-21	Pending	Cerberus Capital/Koch Minerals & Trading	PQ Performance Chemicals	PQ Group	\$1.1bn	1,100	\$615m	615	Sodium silicates, specialty silicas, and zeolites	US/US
15-Feb-21	Pending H2 2021	LANXESS	Emerald Kalama Chemical	American Securities	\$1.075bn	1,075	\$425m	425	Specialty chemicals for food, household and cosmetics, flavours and fragrances, animal nutrition and industrials	Germany/US
21-Jun-21	Pending Q3 2021	Kerry Group	Niacet	SK Capital Partners	\$1.015bn	1015	\$220m	220	Preservatives and food ingredients	UK/US
27-Jan-20	1-Jun-21	Silgan Holdings Inc	Dispensing business	Albea	\$900m	900	\$395m	395	Pumps, sprayers and foam dispensing solutions for beauty and personal care	US/France
9-Jun-21	Pending H2 2021	One Rock Capital Partners	Tire additives business	Eastman Chemical	\$800m	800	-	-	Tire additives	US/US
26-Feb-21	1-Jun-21	W.R. Grace	Fine chemistry business	Albemarle	\$570m	570	-	-	Fine chemicals	US/US
18-Feb-21	9-Apr-21	Birch Hill Equity Partners	Specialty chemicals business	Superior Plus	C\$725m	568	C\$587.4m	461	Sodium chlorate and chlor-alkali products	Canada/Canada
11-Jun-21	Pending H2 2021	Element Solutions	Coventya Holding	-	€420m	514	€160m	196	Specialty chemicals for surface finishing	US/France
2-Feb-21	Pending Q2 2021	BroadPeak Global/Asia Green Fund/Saudi Arabian Industrial Investments Company (Dussur)	Clean Technologies business	DuPont	\$510m	510	-	-	Sulfuric acid regeneration, motor fuels desulfurisation, alkylation technology to produce clean gasoline, advanced air pollution control systems	US/US
21-May-21	Pending end 2021	Synthos	Synthetic rubber business in Germany	Trinseo	\$491m	491	-	-	Synthetic rubber	Poland/US
17-Dec-19	25-Feb-21	Pigments Spain	Tile coatings business	Ferro	\$460m	460	\$510m	510	Tile coatings	Spain/US
28-Sep-20	30-Apr-21	Black Diamond and Investindustrial	Phenolic Specialty Resins, hexamine and European forest products resins	Hexion	\$425m	425	-	-	Phenolic resins, hexamine, forest products resins	US/US
24-Nov-20	5-Jan-21	INEOS	Gemini HDPE (50% for full ownership)	Sasol	\$404m	404	-	-	High density PE (HDPE) for pipe and film	UK/South Africa
19-Jan-21	30-Apr-21	Ashland	Personal care business	Schulke & Mayr	€262.5m	321	-	-	Personal care ingredients	US/Germany
10-Nov-20	31-Mar-21	Recticel	FoamPartner	Conzzeta	Swfr270m	305	-	-	Polyurethane (PU) foams for Mobility, Industrial Specialties and Living & Care	Belgium/Switzerland
23-Jun-21	Pending Q3 2021	Brenntag	JM Swank	Platinum Equity	\$304m	304	\$500m	500	Distribution of food ingredients	Germany/US
7-Dec-20	15-Jan-21	Huntsman	Gabriel Performance Products	Audax Private Equity	\$250m	250	\$106m	106	Specialty additives and epoxy curing agents for CASE and composites	US/US

Select major deals announced or closed 2021

Announced	Completed	Buyer	Target	Seller	Price, local	Price, \$m	Sales, local	Sales, \$m	Business	Countries
24-May-21	Pending	Biffa	Waste collection assets	Viridor	£126m	172	£85m	116	Waste collection depots for plastics recycling	UK/UK
11-Jan-21	1-Apr-21	LANXESS	Theseo Group	-	€70m	86	€33m	40	Animal hygiene and disinfectant solutions	Germany/France
28-May-21	14-Jun-21	Indorama Ventures Ltd (IVL)	Recycled PET	CarbonLite Holdings	\$63.8m	64	-	-	Food-grade recycled polyethylene terephthalic (R-PET) plant in Texas	Thailand/US
5-May-21	5-May-21	Element Solutions	HK Wentworth	-	\$60m	60	\$44m	44	Electrochemicals for the electronics, LED, automotive and industrial sectors	US/UK
12-Apr-21	Pending Q2 2021	Hexpol	Union de Industrias (Unica)	Espiga Capital	€48m	59	€40m	49	Rubber compounds for automotive, construction and agriculture	Sweden/Spain
7-Apr-21	1-Jun-21	Croda	Parfex	-	€45m	55	-	-	Fragrances	UK/France
21-Jul-20	3-Feb-21	LERG	Ciech Zywiec	Ciech	zł160m	42	zł278m	73	Epoxy resins, polyester resins for dyes	Poland/Poland
2-Jul-21	Pending Q4 2021/Q1 2022	Black Diamond Capital Management	Polynt-Reichhold (JV partner stake)	Investindustrial	-	-	€2bn	2,446	Specialty chemicals, composites and resins	US/UK
11-May-21	Pending	Prince International Corp	Chromaflo Technologies	-	-	-	\$1bn	1,000	Colourants	US/US
15-Oct-20	15-Jan-21	Barentz International	Maroon Group	CI Capital	-	-	\$500m	500	Distribution of specialty chemicals in H&I, personal care & pharma, food & nutrition, and CASE	Netherlands/US
29-Jun-21	Pending early 2022	AkzoNobel	Grupo Orbis	-	-	-	€260m	318	Paints and coatings in South and Central America and the Antilles	Netherlands/Colombia
11-Jan-21	17-May-21	PPG	Worwag	-	-	-	€220m	269	coatings	US/Germany
18-Feb-21	1-Apr-21	Hempel	Wattyl	Sherwin-Williams	-	-	€150m	183	Architectural and protective paints and coatings in Australia and New Zealand	Denmark/US
29-Jan-21	29-Jan-21	Stepan	Aromatic polyester polyol business	INVISTA	-	-	\$100m	100	Polyester polyols	US/US
19-Oct-19	2-Mar-21	AkzoNobel	Titan Paints	-	-	-	€80m	98	Decorative paints	Netherlands/Spain
3-Mar-21	3-Mar-21	COUNT Energy Trading	NOAHS Ark Chemicals	-	-	-	€80m	98	Distribution of chemicals	Netherlands/UK
19-Oct-20	2-Mar-21	AkzoNobel	Titan Paints	-	-	-	€80m	98	Decorative paints	Netherlands/Spain
5-Jan-21	22-Feb-21	PPG	VersaFlex	Dalfort Capital Partners	-	-	\$70m	70	Polyurea, epoxy and polyurethane coatings for water and wastewater infrastructure, flooring, transportation infrastructure, and industrial applications	US/US
15-Mar-21	15-Mar-21	OQEMA	Proquibasa	-	-	-	€49m	60	chemicals distributor	Germany/Spain
12-Jan-21	12-Jan-21	Novamont	BioBag Group	-	-	-	€41m	50	Compostable and biodegradable plastic bags, packaging	Italy/Norway
1-Jul-21	1-Jul-21	Avient	Magna Colours	-	-	-	\$48m	48	Water-based inks for textile screen printing	US/UK

Select major deals announced or closed 2021

Announced	Completed	Buyer	Target	Seller	Price, local	Price, \$m	Sales, local	Sales, \$m	Business	Countries
19-May-21	19-May-21	IMCD	Andes Chemical	-	-	-	\$46m	46	Distribution of specialty chemicals in Peru, Central America and the Caribbean	Netherlands/US
6-Jan-21	6-Jan-21	Pritzker Private Capital	Vertellus	Arsenal Capital	-	-	-	-	Specialty chemicals for the healthcare, personal care, food and agriculture, coatings and transportation markets	US/US
23-Apr-21	Pending	SIBUR	TAIF petrochemicals business (Merger)	TAIF	-	-	-	-	Petrochemicals	Russia/Russia

» wealth fund Mubadala has been reported to be in talks to buy Novonor's stake.

On 20 April, Braskem released a letter to the Securities and Exchange Commission of Brazil (CVM) indicating that the "M&A process is in the preliminary stages and Novonor has, through its advisors, contacted investors who may be interested in the transaction but there are no specific or advanced discussions with any investor in particular".

US-Europe ties grow stronger

There is also a "revitalisation of the classical axis" between the US and Europe when it comes to chemicals deals, according to Schneider from Stifel.

"The US is becoming more important compared to Asia as the economy is recovering quite quickly and the new administration is contributing to optimism," said Schneider.

"And on the other side, US buyers are looking to Europe for assets with lower valuations. So we are seeing stronger ties between western Europe and the US," he added.

Meanwhile, large oil and petrochemicals companies such as in southeast Asia in particular are feeling pressure to make acquisitions downstream.

"Several of these companies have already started making downstream and diversification deals but it's not been enough to build a new leg for all the wealth they've built with oil," said Schneider.

"The strategic intent is definitely there but the question is valuation and timing. They want to diversify their wealth from oil and petrochemicals and invest in high margin non-cyclical businesses but some assets are trading significantly higher," he added.

Logistics challenges are also causing companies to rethink about where their manufacturing capacity is located, prompting more cross-border deals.

"Even where companies have their manufacturing capacity in the most efficient region, the concept of having all of your manufactur-

ing eggs in a single geographic basket is being re-questioned," said David Ruf, managing director at investment bank KeyBanc Capital Markets.

Sharper focus among corporates

The COVID-19 crisis has fundamentally changed the investment landscape. Chemicals companies emerging from the COVID-19 crisis and its myriad challenges have sharpened their focus and are thus now divesting non-core businesses as well as seeking deals that bolster their core growth positions.

"During COVID-19 times, companies were challenged by supply chain and logistics disruptions, and end market clients dealing with shutdowns. This caused people to do some strategic soul-searching to focus on what it is that makes them tick - their core purpose as an entity," said Ruf.

"Any business that wasn't in the centre fairway went up for strategic review. As in any challenging time, it causes you to refocus on what you're good at and what you want to grow to become - it puts things in sharper relief," he added.

The result is increased activity on both the sell and buy side from strategics, as well as private equity firms with portfolio companies, he noted.

US-based Eastman Chemical on 9 June agreed to sell its rubber and tire additives business to private equity firm One Rock Capital Partners for \$800m. That business came with Eastman's acquisition of Solutia all the way back in July 2012.

"There's almost no company that's not

David Ruf

Managing director, KeyBanc Capital Markets

"During these times, companies were challenged by supply chain and logistics disruptions, and end market clients dealing with shutdowns"



thinking of what's the right businesses to be exiting and acquiring," said Ruf.

Even after years of portfolio restructuring, companies are still aiming to become more focused, noted Piper Sandler's Zachariades.

UK-based Croda International on 5 May announced a strategic review of Performance Technologies and Industrial Chemicals (PTIC) business, as it prioritises its faster-growth life science and consumer markets.

In 2020, Croda's Performance Technologies business, which includes coatings and polymers, home care chemicals, lubricants and polymer additives, generated £416.4m (\$573m) in sales. Its Industrial Chemicals segment, which makes specialty additives for a wide range of applications, posted £96.4m in revenue.

US-based titanium dioxide (TiO2) and fluoroproducts producer Chemours in March announced a strategic review and potential sale of its Mining Solutions business, which resides in its Chemical Solutions segment.

"Today Chemical Solutions has annual revenue approaching \$600m of which more than half is related to Mining Solutions. What would be left if we were successful in selling [Mining Solutions] is our performance chemicals and intermediates business, which is relatively small... and something we'll address in time," said Chemours CEO Mark Newman on 8 June in an interview with ICIS.

In February, Germany-based Bayer announced its intention to divest its Environmental Science Professional business, which makes pest, disease and weed control products for non-agricultural applications. The business had sales of around €600m (\$711m) in 2019.

While many companies have already put non-core assets on the selling block, more could come after major M&A where not every business of the acquired company fits with the buyer's strategic direction.

"I don't see divestitures stopping because I don't see the pursuit of growth, M&A and refinement stopping," said KeyBanc's Ruf.



» In October 2018, The Carlyle Group and GIC bought out AkzoNobel's specialty chemicals businesses for €10.1bn to form Nouryon. On 1 July, Nouryon completed the spin-out of its base chemicals business into a separate company called Nobian, which remains under the ownership of The Carlyle Group and GIC.

M&A in perspective

The global chemicals M&A market has been slowing down since 2018 in terms of the number and dollar volume of transactions. Valuations, however, have been extremely high as buyer demand is higher than supply, noted Peter Young, president and managing director of investment bank Young & Partners.

"Last year was a particularly slow period in terms of volume for a variety of reasons, including the effects of the pandemic. Most companies and private equity firms focused heavily on the liquidity and health of their companies during the early phase of the pandemic," said Young.

That slowdown continued in Q1 2021, but the banker expects a modest pick-up through the rest of the year.

"We expect the M&A market for all of 2021 to be healthy and exceed 2020 totals, but to only be a fraction of the 2018/2019 peak years," said Young.

Young & Partners data for Q1 2021 showed \$25.1bn of deals closed on an equity basis.

"Although that would suggest a surge on an annualised basis, the merger of DuPont's Nutrition and Biosciences business into IFF was most of the total. Without that merger, the total would have been only \$7.5bn, a 27.4% slowdown on an annualised basis compared to the \$41.3bn that closed in 2020," said Young.

The picture is similar in terms of numbers of deals. In Q1 2021, just 15 deals were completed compared to 67 deals closed in all of 2020, an 11% slowdown on an annualised basis.

"What is going to drive the pick-up in global chemicals M&A for the second half of 2021 and beyond? Activity will be focused on divestitures of non-core businesses, acquisitions and divestitures driven by the desire by certain companies to shift their overall themes, modest private equity deals, and ongoing consolidation in the Chinese chemical industry," said Young.

Hot and up-and-coming sectors

Specialty ingredients such as those for life sciences and food are in particular high demand by buyers. "There is real demand for specialty businesses that do something unique for end clients and that also have strong growth prospects," said KeyBanc's Ruf.

On 21 June, UK-based Kerry Group agreed to buy US-based food ingredients and preservatives company Niacet from SK Capital for \$1.015bn, representing a robust enterprise value/earnings before interest, depreciation

and amortisation (EV/EBITDA) multiple of 15.4x based on expected 2021 earnings.

"Valuations are at very full levels but are also still nuanced as buyers consider margins as well as growth rates," said Ruf.

"We are seeing the buy side picking their spots for assets that are a good fit, and not just taking all comers. It is a much more refined market with buyers really discerning what fits, and what doesn't," he added.

Meanwhile, consolidation activity is picking up in paints and coatings, composites and other resins such as methacrylics, noted Schneider from Stifel.

In April, Germany-based Covestro completed the acquisition of the resins and functional materials (RFM) business of Netherlands-based DSM for around €1.6bn. The RFM business produces sustainable coatings resins, solar coatings and materials for 3D printing.

Also in April, private equity firms Black Diamond and InvestIndustrial completed their buyout of US-based Hexion's phenolic specialty resins, hexamine and European forest products resins businesses for around \$425m. These products are used in end markets such as building and construction, industrial, automotive, electronics, agriculture and consumer.

Deal activity is also strong across in a host of specialty chemical sub-segments such as adhesives and sealants, film and sheet, biocides, ag chemicals, pigments, water treatment and plastic additives, with less activity in the commodity and oilfield chemicals sectors, noted Piper Sandler's Zachariades.

On 7 July, shares of US-based Kraton jumped for a second day in a row following a Reuters report that the pine-based chemicals producer is exploring a sale of the company among other options.



Corporates are pursuing strategic moves

Peter Young
Managing director, Young & Partners

"We expect the M&A market for all of 2021 to be healthy and exceed 2020 totals, but to only be a fraction of the 2018/2019 peak years"



Kraton's chemical segment makes products from crude tall oil (CTO) and crude sulphate turpentine, co-products derived from pine wood pulping. It refines CTO to produce tall oil fatty acids (TOFA), tall oil rosin, distilled tall oil and tall oil pitch. It refines crude sulphate turpentine to produce terpene monomers.

Kraton also has a polymer segment, which makes styrene block copolymers (SBC). The main raw materials for the polymer segment are butadiene (BD), styrene and isoprene.

Sustainability a force

Sustainability-driven transactions and partnerships are also emerging as a force in chemicals, with several companies looking to integrate sustainable raw materials into their value chains, including advanced recycling platforms, green hydrogen and bio-based and bio-engineered raw materials, according to Guggenheim Securities' Harfouche. "M&A will eventually make its way into the rapidly growing SynBio chemicals and materials sector. However, it is very early days," said Harfouche.

Companies in the synthetic biotechnology space include US-based Amyris and Zymergen.

Zymergen in April raised \$500m through an initial public offering (IPO). It aims to speed up new product development in biopolymers and other materials for the electronics, consumer care and other sectors with superior characteristics to existing materials.

Investor reaction has been enthusiastic, with shares recently trading at around \$40, well above its IPO price of \$31.

Infrastructure deals

There may also be further opportunities for major chemicals companies to sell off infrastructure assets, as US-based Dow has done with its railroads, terminals and ports, said Mennella from Rothschild & Co.

On 1 July, Canada-based NOVA Chemicals announced the sale of its ethylene storage and trading business to US-based midstream company Enterprise Products Partners, allowing it to focus on its core business of ethylene and polyethylene (PE) production.

"We still think there's an opportunity for the separation of hard assets that are best owned by infrastructure funds and other specialists in this area," said Mennella. ■

Additional reporting by Al Greenwood