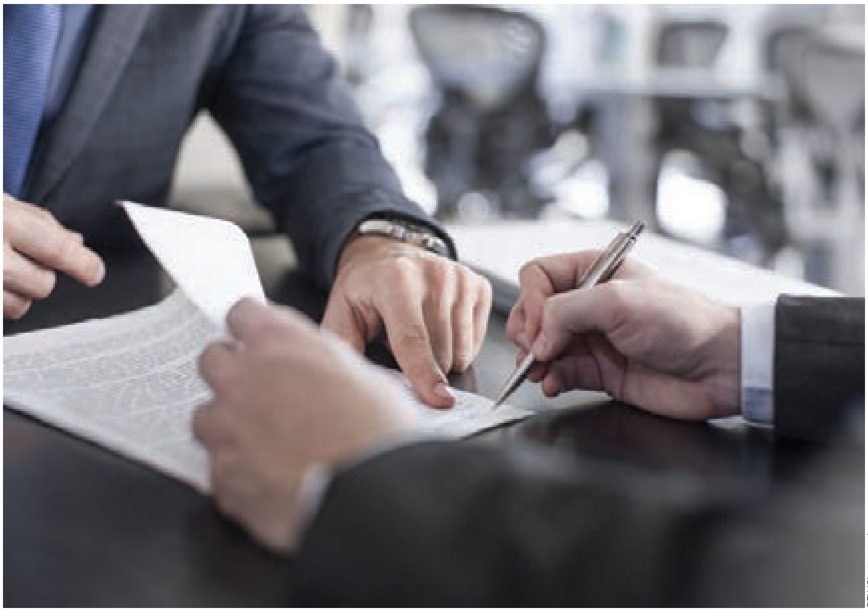
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Sign on the dotted line: more deals are on their way in the chemical sector

M&A streak is all set to continue

Economic and finanacial conditions remain favourable for an active M&A market in European chemicals, according to leading financial analysts

JOSEPH CHANG NEW YORK

Chemical mergers and acquisitions (M&A) activity in Europe is set to continue at strong levels as borrowing costs remain low and buying interest is high among both corporates and private equity amid a relatively healthy economy. Robust valuations are also drawing out sellers.

"It has been a continuously very healthy M&A market with mid-cap and small-cap activity even stronger," says Frankfurt, Germany-based Bernd Schneider, managing director and global head of chemicals at investment bank Alantra.

"Lots of businesses are up for sale because valuations are strong. But there are fewer and fewer high quality assets for sale. When they do come up, demand is incredibly strong, making it more difficult for buyers," says Anton Ticktin, partner at investment bank The Valence Group.

There is growing pressure on smaller European chemical companies amid industry consolidation and increasing trade protectionism around the world. These companies are being pushed to merge with larger companies, or make cross border deals of their own.

"They definitely feel the pressure from the consolidation of larger companies, but also feel they are missing the train if they don't have a presence in the US or Asia," says Alantra's Schneider.

With Brexit looming, and conditions as yet unknown regarding the movement of chemicals between the EU and the UK, less M&A activity is taking place in the UK compared to the rest of Europe.

"With regard to Brexit, chemicals are potentially among the most impacted industries when it comes to trade flows between the UK and the EU. So there's a bit of a hiatus in M&A in the UK. People are watching and waiting," says Paul Harnick, global chair of chemicals and performance technologies at consultancy KPMG.

PAUL BJACEK
Principal director and resources research lead, Accenture

"The oil industry is finding it is achieving the greatest profit growth from chemicals"

TRADE CONSIDERATIONS

Trade tensions between the US and EU do not appear to be dampening interest in European chemical assets at all, according to bankers. This may even underline the importance of having production assets in Europe that can serve the local market or even export to China.

In August, US-based nylon 6,6 producer Ascend Performance Materials announced the acquisition of Netherlands-based engineering plastics compounder Britannia Techno Polymers (BTP), establishing the company's first manufacturing operations abroad.

Ascend does not sell nylon 6,6 resin to China's domestic market as there has been an antidumping duty (ADD) on nylon 6,6 since 2010. However, it does sell nylon 6,6 compounds into China.

With nylon 6,6 resin and compounds listed in China's second round of $16bn in retaliatory tariffs against US imports, it could make sense to send resin to Europe to be compounded and then shipped to China.

"There may be some advantage buying European companies with regard to China amid US-China trade issues but that doesn't appear to be a major driver so far," says The Valence Group's Ticktin.

INTEREST HIGH ACROSS ASSETS

Even as Europe has a lower growth profile than Asia or the US, there is plenty of interest in local chemical assets that come up for sale – both in specialties and commodities.

"In all the years in the industry, I've not seen a chemical M&A market as hot as it is »

BERND SCHNEIDER
Managing director, Alantra

"It has been a... very healthy M&A market with mid-cap and small-cap activity strong"

now. Balance sheets are strong so companies have cash to spend. Confidence is strong with companies focusing on growth and expansion," says KPMG's Harnick.

Some high profile assets on the selling block or being evaluated for sale by European companies include LANXESS's water treatment chemicals unit, Evonik's methacrylates business and Lonza's water treatment chemicals business.

There should be additional acquisition opportunities following The Carlyle Group and GIC's €10.1bn acquisition of AkzoNobel's specialty chemicals business, which consists of several diverse segments. Many in the financial community believe some of these businesses will be put up for sale separately.

FEDERICO MENNELLA
Managing director, Lincoln International

"We've even seen aggressive private equity firms outbid strategics in auctions"

Its five business segments include surface chemistry, pulp and performance chemicals, polymer chemistry, industrial chemicals, and ethylene and sulphur derivatives. Major product areas include surfactants, ethylene oxide (EO), polymer and rubber additives, chlorine and bleaching chemicals.

Beyond specialties, European commodity chemical assets can also attract buyers in today's market.

"Even mature businesses such as phenolic resins, styrenic or acrylic polymers can currently attract a good amount of interest, says Schneider, whose Alantra represented private equity firms capiton and ICG in their sale of Germany-based phenolic resins producer Prefere Resins to European private equity firm Silverfleet Capital announced in May 2018.

"We ran a global auction process and saw healthy interest from trade buyers in Asia the US and Europe, along with private equity," says Schneider.

Prefere Resins, with around €250m in annual sales, is among others, benefiting from

MAJOR RECENT M&A DEALS INVOLVING EUROPEAN CHEMICAL COMPANIES

Buyer	Seller/Target	Price, $	Location (buyer/seller)	Businesses
Air Products	ACP Europe		US/Belgium	carbon dioxide (CO_2)
AkzoNobel	V.Powdertech		Netherlands/Thailand	powder coatings
	Fabryo Corporation		Netherlands/Romania	coatings
AkzoNobel Specialty Chemicals	Polinox		Netherland/Brazil	organic peroxides
Arkema (Bostik)	Nitta-Gelatin		France/Japan	industrial adhesives business
Ascend Performance Materials	Britannia Techno Polymer (BTP)		US/Netherlands	engineering plastics compounder
Bain Capital Private Equity	Italmatch Chemicals		UK/Italy	chemical additives
BASF	Solenis		Germany/ US	water and paper treatment chemicals operations
Borealis	Ecoplast Kunststoffrecycling		Austria/Austria	plastic recycling business - full ownership
Carlyle Group/GIC	AkzoNobel	10.1bn	US+Singapore/ Netherlands	AkzoNobel's specialty chemicals business
COIM	Atmosa		Italy/Austria	phthalic anhydride (PA) - 50% stake
CVC Capital Partners Fund VI	The Alpha Corporation (AOC parent company)		US/Luxembourg	resins
DSM	Amyris Brasil		Netherlands/Brazil	renewable chemicals, farnesene
Ecolab	Arpal Group		US/UK	cleaning and sanitising chemical products
Elpis	PCC Oxyalkylates Malaysia		Poland/Malaysia	surfactants - 100% share
Evonik	3M		Germany/US	high-concentrates additive compounding
Highsun Group	Fibrant		China/Netherlands	caprolactam and ammonium sulphate manufacturer - sold by CVC Capital and DSM
Indorama Ventures	Artlant PTA		Thailand/Portugal	purified terephthalic acid (PTA)
	Kordarna Plus		Thailand/Czech Republic	tyre cord fabrics
	Societe de Recyclage de Matieres Plastiques (Sorepla)		Thailand/France	plastics recycler
Jindal Films	Treofan Europe		India/Germany	biaxially oriented polypropylene films (BOPP films) for packaging, labels and technical applications - controlling stake from M&C
LANXESS	Solvay		Germany/Belgium	US phosphorus additives business
Messer and investor CVC Capital Partners	Linde		Germany/Germany	gases business in North America, along with certain operations in South America
PCC Rokita	IRPC Polyol		Poland/Thailand	polyols and polyurethane (PU) - 25% to 50% stake
PolyOne	IQAP Masterbatch Group		US/Spain	specialty colourants and additives
SABIC	Clariant		Saudi Arabia/ Switzerland	24.99% stake from 40 North and Corvex Management
Saudi Aramco	LANXESS		Saudi Arabia/Germany	LANXESS' 50% in ARLANXEO synthetic rubber joint venture
Toray Industries	TenCate Advanced Composites Holding		Japan/Netherlands	carbon fibre composite materials producer
Valtris (HIG Capital)	INEOS's Baleycourt		US/Switzerland	products for the polymer additives, lubricant, renewable energy and food markets
	INEOS's chlorotoluenes		US/Switzerland	coatings, fragrance, personal care and pharmaceutical sectors
Yara International	Tata Chemicals		Norway/India	urea business

the trend of consumers in Europe and particularly Scandinavia using more wood versus stone and glass in housing and other construction. It has also developed innovative products, he notes.

Silverfleet will employ a "buy-to-build" strategy for Prefere Resins, enhancing its R&D capabilities, launching new products and expanding the company's geographic footprint and customer base.

"It is still a seller friendly environment to put assets on the block," adds Schneider.

"The holding cycle for private equity is also getting shorter – what was once five years can now often be only three years. This is also driven by a fear that the next downturn is coming at a certain point," he added.

Valuations for many European commodity or intermediates businesses range from around 7.0-8.5x earnings before interest, tax, depreciation and amortisation (EBITDA) which can be appealing to both sellers, as well as buyers that want to avoid the inflated 15-16x multiples in sectors such as food, cosmetic and pharmaceutical ingredients, he noted.

And many European businesses have improved both on the operations and intellectual property sides out of necessity amid many years of slow or nonexistent economic growth, adding to their appeal, says Schneider.

PRIVATE EQUITY SEEKS ASSETS

Another European business being sold by private equity to private equity was Italy-based Italmatch, a producer of performance additives for the lubricant, plastics, water and oil and gas markets with around €400m in annual sales. Bain Capital agreed to acquire Italmatch from Ardian in June 2018.

"Strategics are the most active, but private equity transactions represent a substantial minority of deals in Europe," says Federico Mennella, managing director and global head of chemicals at investment bank Lincoln International which represented Bain Capital on the Italmatch deal.

ANTON TICKTIN
Partner, The Valence Group

"Lots of businesses are up for sale.. but there are fewer and fewer high quality assets for sale"

"Private equity groups are very active and sometimes making pre-emptive overtures. We've even seen aggressive private equity firms outbid strategics in auctions, which seems strange. But with financing costs low, flexible structuring and quick decision making, private equity firms can prevail over strategics," he adds.

And where once only certain private equity groups with expertise in chemicals such as SK Capital and Arsenal Capital looked for deals, today many others are casting their eyes on the sector.

"The tipping point [to an ultra-hot market] is when you have nonstrategic buyers in the private equity world that have not been long embedded in chemical assets starting to take a look and buy their way into the industry. We've seen this pick up in the last 6-9 months," says KPMG's Harnick.

However, caution is warranted as the business cycle is long in the tooth and chemicals is a cyclical industry. "Chemicals is a cyclical industry and has been riding this upturn for a while. People need to be careful they're not buying at the top of the cycle," Harnick adds.

THE ROLE OF ACTIVISTS

Activist investors are also making their mark in the European chemical M&A market, sometimes encouraging M&A activity and other times blocking a merger, notes Lincoln International's Mennella.

Activist investor Elliott Management got involved in Netherlands-based AkzoNobel in 2017 as it spurned US-based PPG's bid, likely accelerating AkzoNobel's divestiture of its specialty chemicals unit.

On the flip side, activist White Tale took a stake in Switzerland-based Clariant in 2017, scuttling its planned merger with US-based Huntsman. It subsequently sold its nearly 25% stake to Saudi Arabia-based SABIC.

"In Europe, there will be more activist fallout resulting in restructuring," says Mennella.

Mega-deals such as the one attempted by Clariant and Huntsman are less likely, with deals in the €100m-€500m range more common, he notes.

And new CEOs also typically lead to more M&A activity, both on the buy and sell side, as restructuring often takes place, Mennella points out.

Since February 2018, Belgium-based Solvay has been seeking a successor to longtime CEO Jean-Pierre Clamadieu, as he has been nominated as chairman of France-based utility Engie.

MIDDLE EAST BUYERS

Middle East energy giants and chemical companies are also expected to continue looking for European chemical assets, along with those in the US, notes Ticktin from The Valence Group. "Middle East energy companies were advised a few years to go downstream to differentiate their businesses, and there's no let-up in that," says Ticktin.

"The oil industry is finding it is achieving the greatest profit growth from chemicals. Greater emphasis and investment is being diverted to petrochemicals," says Paul Bjacek, principal director and resources research lead at consultancy Accenture.

In early August, Saudi Aramco agreed to buy the remaining 50% of its ARLANXEO synthetic rubber joint venture from partner Germany-based LANXESS for around €1.4bn.

"The proposed purchase underscores Saudi Aramco's strategy to further diversify our downstream portfolio and strengthen our capabilities across the entire petroleum and chemicals value chain. Notably the acquisition will accelerate our growth into C4-based chemicals including butadiene and isobutylene," said Saudi Aramco's senior vice president of downstream, Abdulaziz M Al-Judaimi.

PAUL HARNICK,
Global chair of chemicals, KPMG

"With regard to Brexit, chemicals are potentially among the most impacted industries"

OUTBOUND M&A

European buyers are also becoming more active in cross border chemical M&A, with Western European buyers leading the charge, according to Accenture's Bjacek.

Year-to-date through 1 August, Western European buyers accounted for around 32% of total cross border chemical deals versus less than 20% for North American buyers. Last year, Western European buyers were just 20% of the total, according to Accenture.

"Western Europe has increased cross border acquisitions, with North America the main target," says Bjacek. That would be consistent with major European chemical companies announcing plans to step up organic investment in North America as well.

LANXESS CEO Matthias Zachert in a July interview with ICIS announced a plan to invest €500m in North America through 2022 to boost capacity across several specialty chemicals areas.

The company also gearing up for more M&A in North America following its acquisition of US-based Chemtura in 2017, and most recently Solvay's phosphorus additives operations in Charleston, South Carolina, US in February 2018.

Germany-based Evonik is also seeking to expand its footprint in North America with a series of capital investments, said John Rolando, president of Evonik's North American arm, at a press briefing in July.

In 2017, the company made two major acquisitions in the US – Air Products' Performance Materials Division and J.M. Huber's silicas business. ■