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Chemicals M&A Review

theValenceGroup

Contents

$5.3 billion
Platinum Equity
is acquiring
Solenis
from
Clayton Dubilier & Rice
BASF
Financial Advisor

$4.7 billion
GC
is acquiring
allnex
from
Advent International
Financial Advisor

$4.7 billion
BainCapital
Cinven
have acquired the Specialty Ingredients business of
Lonza
Financial Advisor

$2.1 billion
Everarc
is acquiring
Perimeter Solutions
from
SK Capital
Financial Advisor

$1.0 billion
SK Capital
is selling
Niacet Corporation
to
Kerry
Financial Advisor

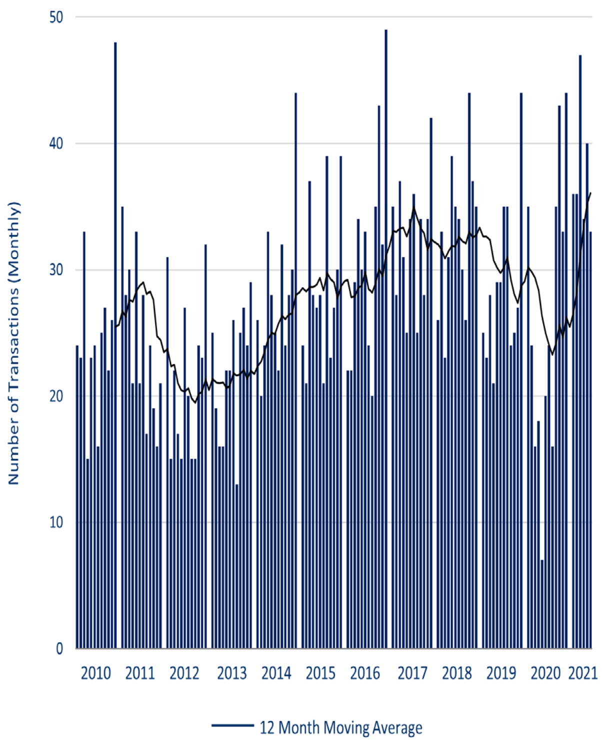
Highlights

- The Valence Group of Piper Sandler advises on more than US $20 billion of announced transactions in 2021
- Chemical transaction multiples reach a 20-year high and high tier specialty chemicals trading at 25x EBITDA
- Private equity share of chemicals M&A transactions in 2021 now above 35% for the first time and over US $20 billion

M&A and Valuations

A year ago, it would have been difficult to believe that we would now be in the midst of an M&A boom. In North America and Europe, acquisitions have been running at elevated levels fuelled by higher growth and profits outlook, as economies start to escape from the Covid induced recessions. Across multiple industries, M&A has been at or close to all-time highs, and chemicals has been no exception and has recovered strongly. As can be seen from Figure 1, monthly volumes of chemicals M&A transactions has continued to climb almost steadily from Q3/Q4 2020.

Figure 1: Monthly Chemicals M&A Volumes



The Valence Group of Piper Sandler and Capiq analysis. Deals above $10m

The rebound actually started in China but quickly moved to Europe and the US where it has really taken hold. Asia has now softened somewhat, as the next wave of the Covid Delta variant hits those economies (many with lower vaccination rates). Europe and North America have continued to show resilience as we have seen from the number of deal announcements of larger transactions such as:

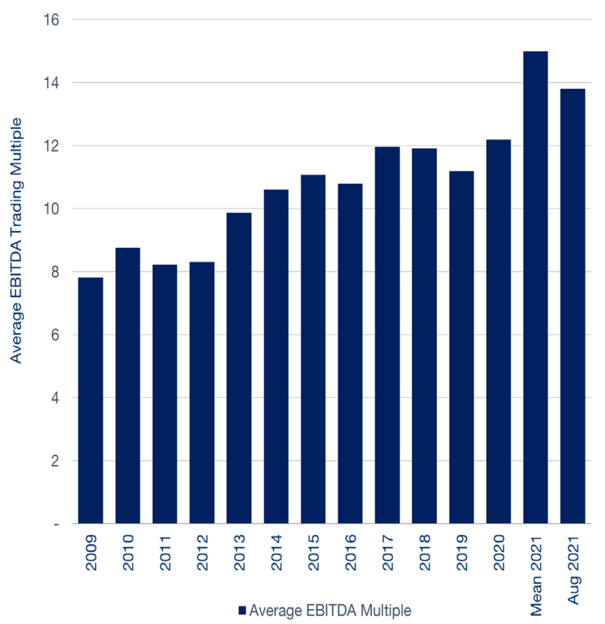
- Platinum – Solenis (CD&R and BASF)
- PTTGC (Thailand) – Allnex (Advent)
- Everarc – Perimeter Solutions (SK)
- Lone Star – AOC (CVC)
- Kerry – Niacet (SK)

Just the above five examples amounted to $15bn in the last few months, emphasising the strength of the market. Certainly from our own view at the Piper Sandler Chemicals Group, having advised on four of the above transactions, the market remains undeniably strong and the most active since 2010.

Corporate profits have rebounded strongly from the lows of Q2/Q3 2020, and with most upstream chemical companies able to increase both volume and pricing, coupled with strong specialty chemicals profits, it is unsurprising stock prices have also continued to rise. Naturally this has led to trading multiples rising as markets reacted to the new profit outlook. Current multiples (12 month LTM EBITDA basis) are now at all-time highs and are at above 14x EBITDA on average for chemicals in 2021 (Figure 2). However, as corporate profits for 2021 start to catch up with the rapid stock price appreciation of H1 2021, we would expect the average multiple to moderate and decline to 12-13x EBITDA by the end of the year.

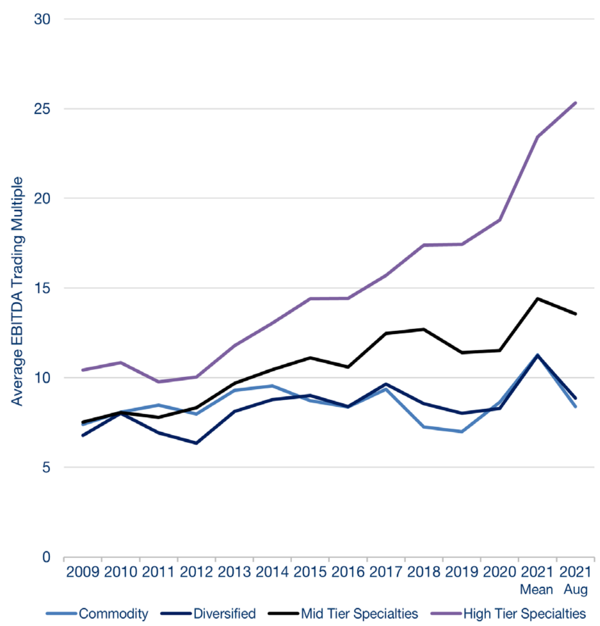
As also shown in Figure 2, with Q2 results being announced recently, the average trading multiple has already dropped by c. 10% to below 14x EBITDA. The chemical sector subsegments show a similar pattern, as seen in Figure 3, with most segments showing an increase in trading multiples this year but with a tailing off most recently as profits caught up with stock price gains. The exception remains for the high tier specialty segment which continues to increase even in the last few months. Healthy profits, growth, consolidation and M&A (both acquisitions and divestments) continue to support these sub-segment sectors and much of the rise of the trading multiples for chemicals overall.

Figure 2: Chemical Company Trading Multiples



The Valence Group of Piper Sandler and Capiq analysis. Based on c. 90 mainly US and European chemical companies

Figure 3: Trading Multiples by Chemical Segment



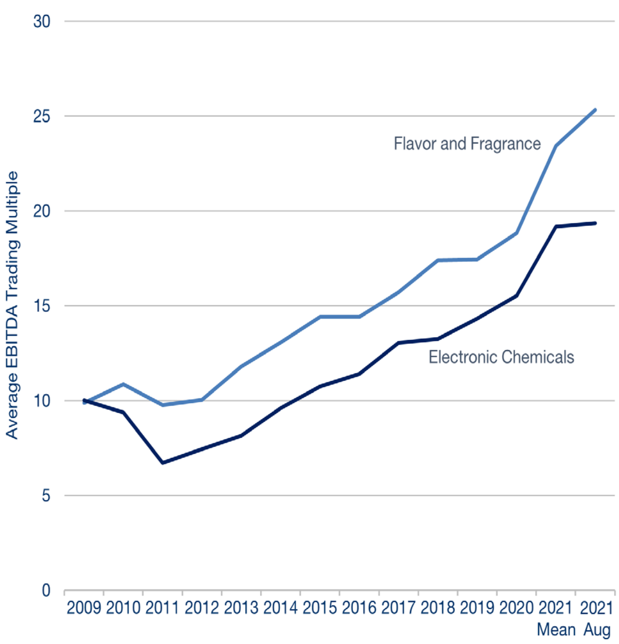
The Valence Group of Piper Sandler analysis based on 90 mostly European and North American chemical companies.

Trading multiples for commodity and diversified chemicals have only risen by c. 20-30% in the last 10 years whereas for high tier specialities it is over 100%. The speciality chemicals sector has been the driver of valuation growth overall.

There is currently no sign of the valuation levels of high tier specialty chemicals declining. Large investors are increasingly moving away from stocks in companies linked to oil due to ESG reasons. Many specialty chemicals in areas such as electronic chemicals, flavours and fragrance and food/nutrition related sub-segments offer an attractive alternative.

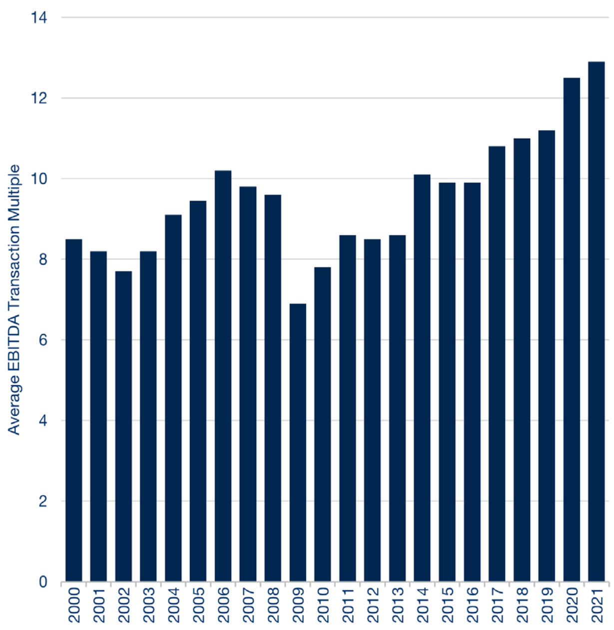
As shown in Figure 4, valuations in sectors such as electronic chemicals, after a decline early in the last decade, have risen strongly and are typical of many of the high tier speciality segments. The Flavours and Fragrance segment is similar. It is difficult to see how the importance of these segments in a more ESG-focused and post-Covid environment will falter. Valuations are therefore unlikely to decline substantially in the near to mid-term, and chemical company valuations overall will consequently remain at current levels, albeit with perhaps an ever increasing split between high end speciality chemicals and the less in favour commodity or more diversified chemicals.

Figure 4: Select High Tier Specialty Chemicals Trading Multiples



The Valence Group of Piper Sandler and Capiq analysis. Based on mainly US and European chemical companies

Figure 5: Chemical Company Transaction EBTDA Multiples



The Valence Group of Piper Sandler internal analysis. Disclosed Transactions > c.$200m

As previously mentioned, with the number of high profile larger transactions, the average valuation multiple, as measured by transaction purchase price, has also increased to 13x EBITDA (Figure 5). The M&A market has been underpinned by continued strong demand for acquisitions, high profits and financial sponsors keen to deploy capital while also considering exits. There is little to suggest this will change in 2021 and acquisitions are expected to continue apace post the summer lull. The expectation is that trading and transaction multiples will converge at c. 13x EBITDA for the year and will very probably mark the highest annual level recorded to date.

Private Equity – Ever Upwards

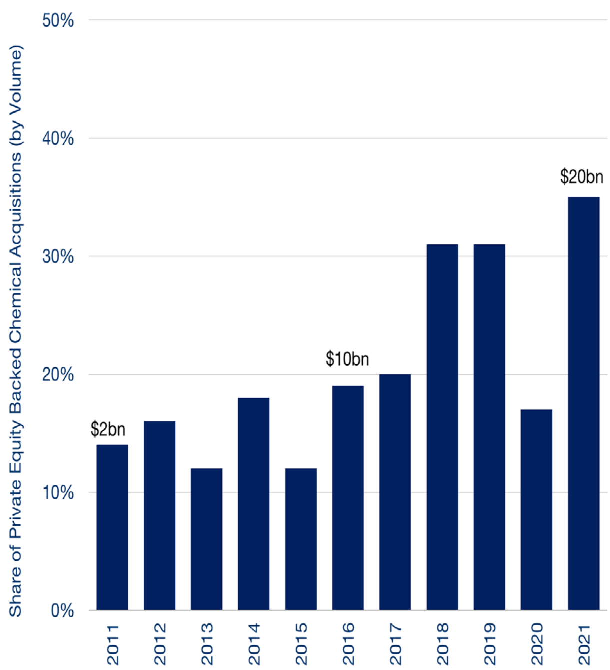
As indicated above, financial sponsors have been one of the driving forces of M&A in chemicals in the last 6 months. Traditionally, private equity has played a relatively important but secondary role in the chemicals arena. The chemical industry does not always lend itself to the private equity model as the complexity of understanding the technical and market dynamics of more than 220 product/market sectors is normally seen as a partial barrier to the uninitiated.

Furthermore, the cyclicality of many upstream sectors has been seen as a high risk for debt heavy financial structures required by private equity. One only needs to think back to LyondellBasell and Borsodchem to understand the risks attached to these sub-sectors (of course, over the cycle the returns on upstream businesses can be impressive and often better than performance chemicals but a stable cash flow is needed to service high leverage). Typically, financial sponsors have been selective in their investment strategy and heavily favoured performance chemicals. As a consequence, private equity typically only accounts for c. 10-15% of transactions in chemicals by volume.

In recent years, we have seen the rise of sector specialists such as SK Capital Partners and Arsenal Capital who have focused investments in chemicals with great success. Companies such as Carlyle, Bain Capital and Advent International have also achieved significant success in the chemicals sector.

Despite this interest, private equity transaction levels had largely remained approximately constant as a percentage of overall M&A. However, in 2021 private equity has become a driving force in chemicals M&A. More than 35% of acquisitions across chemicals have been backed by financial sponsors (this even excludes sponsor owned company acquisitions). As Figure 6 shows, after a broadly stable c. 7-8 year period of from 2011, private equity is now a major player in the chemical industry and competes head-on with industrial companies for some of the most prized assets.

Figure 6: Private Equity Share of Chemicals M&A (by volume)



The Valence Group of Piper Sandler internal analysis. Up to Aug 1st 2021. By number of transactions.
Approximate value indicated for three years is in US$.
Only includes private equity backed transactions and excludes portfolio company acquisitions

In line with volumes, total deal value was increased sharply. In 2011, deal value was less than $2 billion, by 2016 this had risen to c. $10bn. To date, 2021 has notched up more than $20bn in financial sponsor led acquisitions. In terms of deal value, private equity accounts for more than 40% of chemicals transactions currently. This is a staggering change in just 10 years.

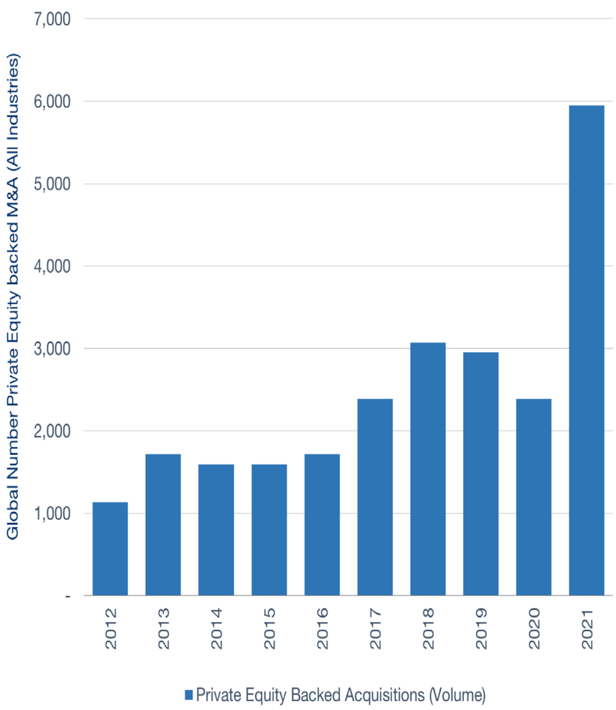
The strength of private equity can be traced back to several important factors:

- Low interest rates coupled with availability of debt and high leverage levels (currently debt above 6x EBITDA is accessible)
- Huge reserves of capital and need to deploy capital (Figure 7 shows global private equity M&A)
- Continued realignment of the chemical industry to sector specialisation with resulting consolidation/ divestment of businesses
- Increased chemical sector focus from recent successful acquisitions and exits
- Rise of financial sponsors focused on chemicals either wholly or partly
- More flexible approach to exit options and the emergence of Asian buyers at exit

All of these aspects have combined recently with the resulting increase in deal volumes. The availability of low cost debt and access to capital are one of the key current supporting pillars and this has made financial sponsors even more competitive.

Critically, we therefore appear to have reached a tipping point where financial sponsors can now outbid strategic buyers. This has enhanced their ability to acquire companies in auction or bilateral processes boosting their overall success. As a recent example from chemicals, Bain Capital/Cinven outbid strategic companies for the acquisition of Lonza Specialty Ingredients. With the increased attention and focus on the chemicals sector, financial sponsors will, at the current interest rates, continue to grow in importance.

Figure 7: Total Private Equity Acquisitions (All Industries)

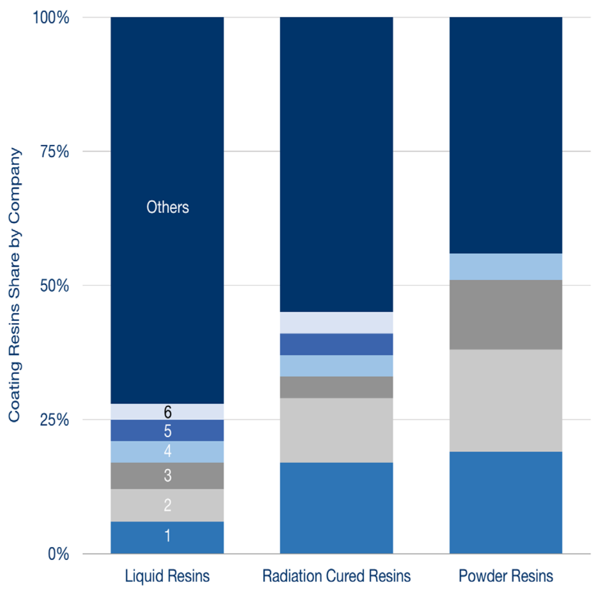


Source: Refinitiv up to July 1, 2021

Sector Focus – Coatings Resins

The coatings intermediates segment of chemicals encompasses all the coatings resins and additives technologies and products used to produce industrial and decorative paints, coatings, inks and composites. The products manufactured by specialists can include highly complex chemistry across acrylics, polyurethanes, epoxies, polyesters or other chemistries and are moving inexorably away from solvent to more environmentally friendly water-based chemistries. The products are sold widely to end customers in the paints and coatings industry such as PPG, Akzo-Nobel, Sherwin-Williams and Axalta. There are more than 10-20 companies with significant share in their chosen area(s) as shown in Figure 8.

Figure 8: Coatings Resins - Sector Fragmentation



Source: The Valence Group of Piper Sandler

In common with much of the chemical industry, the sector has seen private equity interest and some M&A activity but has now started to consolidate. In many ways, the sector is typical of the industry with several private equity owners and multiple chemical companies, some of who may consider M&A as part of the industry consolidation. In the mid-term we would expect to see considerable M&A activity as part of this overall consolidation and we have already seen two large transactions in the last 12 months. DSM divested its Coating Resins business (to exit the sector entirely) to Covestro and Advent International is divesting Allnex to PTTGC (Thailand). It is expected that these two deals, of combined value of more than $6bn, will be the start of expansion of some companies while others exit the space. Mergers also seem probable.

The sector has, until recently, not received much attention as it was fragmented, had multiple technologies, phasing out older products and perhaps most importantly, unclear growth and dynamics. Now with a clearer growth platform for newer or environmentally friendlier products, strong growth in Asia and more committed and focused companies, there is renewed interest in the sector. Expansion and consolidation will inevitably result in more M&A and we expect to see more significant acquisitions in the next years.

Chemicals YTD 2021 Transactions

FALCON PRIVATE HOLDINGS
is selling
ARISTECH SURFACES
to
TRINSEO
Financial Advisor

danimer scientific
has acquired
NOVOMER Catalyzed Chemistry
Financial Advisor

GC
(PTT Global Chemical)
is acquiring
allnex
from
Advent International GLOBAL PRIVATE EQUITY
Financial Advisor

Platinum Equity
is acquiring
solenis
from
CLAYTON DUBILIER & RICE
BASF
Financial Advisor

SK CAPITAL
is selling
Niacet
to
KERRY
Financial Advisor

EVERARC
is acquiring
Perimeter SOLUTIONS
Quality Products. Exceptional Response.
from
SK CAPITAL
Financial Advisor

heubach
and
SK CAPITAL
are acquiring the Pigments Business of
CLARIANT
Financial Advisor

FENZI
has partnered with
ARSENAL CAPITAL PARTNERS
Financial Advisor

NAUTIC
has sold
SPARTECH
to
THE JORDAN COMPANY
Financial Advisor

BainCapital
Cinven
have acquired the Specialty Ingredients business of
Lonza
Financial Advisor

AEA
has acquired
VERDESIAN
from
PAINE SCHWARTZ PARTNERS
Financial Advisor

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Specialization Delivers Special Results

Lead advisor on largest ever chemical LBO

$11.7 billion

The Carlyle Group GIC

have acquired the Specialty Chemicals business of

AkzoNobel

now known as

Nouryon

Financial Advisor

Lead advisor on second largest chemical LBO

$5.3 billion

Platinum Equity

is acquiring

Solenis

from

Clayton Dubilier & Rice BASF

Financial Advisor

Lead advisor on fourth largest chemical LBO

$4.7 billion

BainCapital

Cinven

have acquired the Specialty Ingredients business of

Lonza

Financial Advisor

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Piper Sandler acquired the preeminent chemicals M&A firm, The Valence Group, on April 3, 2020. The Valence Group is a specialist investment bank offering M&A advisory services exclusively to companies and investors in the chemicals, materials and related sectors.

The chemicals team includes a unique combination of professionals with backgrounds in investment banking, strategic consulting and senior management within the chemicals and materials industries, all focused exclusively on providing M&A advisory services to the chemicals sector.

BainCapital
Cinven
have acquired the
Specialty Ingredients business of
Lonza
Financial Advisor

AEA
has acquired
VERDESIAN
from
PAINE SCHWARTZ PARTNERS
Financial Advisor

GRYPHON INVESTORS
has acquired
KANO
from the founders
Financial Advisor

MOMENTIVE
jointly owned by
KCC
SJL PARTNERS
has sold its
Consumer Sealant business to
Henkel
Financial Advisor

CLARIANT
has sold its
Masterbatches business to
PolyOne
Financial Advisor

INDORAMA VENTURES
has acquired the
Integrated Oxides and Derivatives
Businesses of
HUNTSMAN
Financial Advisor

synthomer
has acquired
OMNOVA SOLUTIONS
Financial Advisor

ARKEMA
has acquired
ArrMaz
from
GOLDEN GATE CAPITAL
Financial Advisor

INEOS
has acquired the
Ashtabula, OH Titanium
Dioxide plant of
TRONOX
Financial Advisor

SK CAPITAL
has acquired the Performance
Products and Solutions Division from
PolyOne
Financial Advisor

CPS PERFORMANCE MATERIALS CORP
a portfolio company of
ARSENAL CAPITAL PARTNERS
has acquired
GEO SPECIALTY CHEMICALS
Financial Advisor

GOLDEN GATE CAPITAL
has acquired
ActiveMinerals INTERNATIONAL, LLC
from
MERIT CAPITAL PARTNERS
Financial Advisor

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INEOS
has acquired the Composites business and German BDO plant of
Ashland
Financial Advisor

Charlesbank
CAPITAL PARTNERS LLC
has sold
PLASKOLITE
to
PPC Partners
Financial Advisor

DUNES POINT CAPITAL
has sold
MILLER
to
HUBER
Financial Advisor

INEOS
has sold its Melamines & Paraform businesses to
prefere resins
Financial Advisor

THE CARLYLE GROUP GIC
have acquired the Specialty Chemicals business of
AkzoNobel
now known as
Nouryon
Financial Advisor

solenis
a portfolio company of
CLAYTON DUBILIER & RICE
has merged with the Paper and Water Chemicals business of
BASF
Financial Advisor

ChemicaInvest
a joint venture of
DSM CVC Capital Partners
has sold
FIBRANT
to
HSC
Financial Advisor

US SILICA
has acquired
EP Minerals
a portfolio company of
GOLDEN GATE CAPITAL
Financial Advisor

SK CAPITAL
has acquired the Fire Safety and Oil Additives businesses of
ICL
Financial Advisor

ITAÚSA
has sold
Elekeiroz
to
H.I.G. CAPITAL
Financial Advisor

EP Minerals
a portfolio company of
GOLDEN GATE CAPITAL
has acquired the Bleaching Clay and Mineral Adsorbents business of
BASF
Financial Advisor

ARCHROMA
a portfolio company of
SK CAPITAL
has been recapitalized
Financial Advisor

Quaker
has acquired
HOUGHTON
from
Gulf
Financial Advisor

NMC
NEW MOUNTAIN CAPITAL LLC
has partnered with
Gelest
Financial Advisor

Niacet
has been sold to
SK CAPITAL
Financial Advisor

ROCKWOOD THEBE
have sold
Safripol
to
KAP
Financial Advisor

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EVONIK
has acquired the Silica business of
HUBER
Financial Advisor

INEOS
has sold its Expandable Polystyrene business to
synthos
Financial Advisor

eurazeo
has acquired
novacap
a portfolio company of
ARDIAN
Financial Advisor

Arsenal | Capital Partners
has sold
ROYAL ADHESIVES & SEALANTS
to
AMERICAN SECURITIES
Financial Advisor

nubiola
has been sold to
FERRO
Financial Advisor

INEOS SOLVAY
has sold certain Chlorvinyls businesses as a remedy to secure European Commission approval of INOVYN, their planned PVC JV, to
INTERNATIONAL CHEMICAL INVESTORS GROUP
Financial Advisor

DOW
has sold its Sodium Borohydride business to
Vertellus
a portfolio company of
WIND POINT PARTNERS
Financial Advisor

cbpe capital
has sold
Warwick Chemicals
to
Lubrizol
Financial Advisor

Arsenal | Capital Partners
a portfolio company of
ACCELLA POLYURETHANE SYSTEMS
has sold its Plastisols business to
PolyOne
Financial Advisor

HSC CORPORATION
(Zhangjiagang, China)
has been sold to
CYG
ChangYuan Group
(Shenzhen, China)
Financial Advisor

Permira
has acquired
CABB
from
Bridgepoint
Financial Advisor

canexus
has been sold to
CHEMTRADE
Financial Advisor

TESSENDERLO GROUP
has sold its Compounds business to
MITSUBISHI CHEMICAL
Financial Advisor

CYTEC
has sold its Building Block Chemicals Division to
H.I.G. CAPITAL
Financial Advisor

Niacet
has acquired ChemSolutions B.V. from
Kemira
Financial Advisor

PolyOne
has sold its 50% ownership interest in SunBelt Chlor Alkali Partnership to
Olin
Financial Advisor

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