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theValenceGroup

Chemicals M&A Review

Highlights

- Chemical M&A and valuations unchanged in 2019 despite more volatile equity markets
- Higher tier and more focused specialty chemical companies now almost double the valuation of diversified/commodity peers
- With M&A volumes remaining at an all time high, the chemical industry continues to realign along product and market focused lines

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ARKEMA
is acquiring
ArrMaz
from
GOLDEN GATE CAPITAL
The Valence Group acted as
Financial Advisor to Arkema

INEOS
has acquired the
Ashtabula, OH Titanium Dioxide plant of
TRONOX
The Valence Group acted as
Financial Advisor to INEOS Enterprises

INEOS
is acquiring the Composites business
and German BDO plant of
Ashland
The Valence Group acted as
Financial Advisor to INEOS Enterprises

GOLDEN GATE CAPITAL
has acquired
ActiveMinerals
INTERNATIONAL, LLC
from
MERIT CAPITAL PARTNERS
The Valence Group acted as
Financial Advisor to Golden Gate

Chemicals M&A Outlook

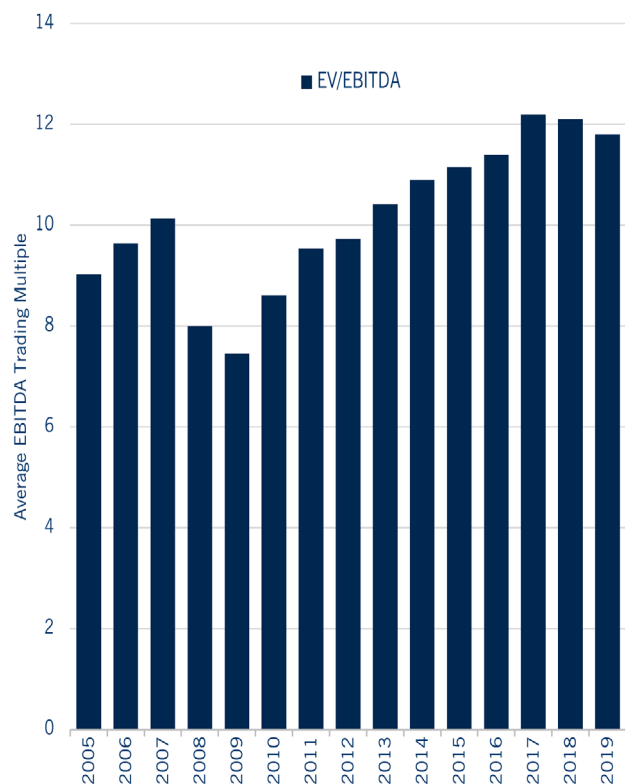
Although 2019 started with equity markets falling and many chemical company share prices and valuations dropping, the year to date has so far been less calamitous than some had predicted. We deliberately decided against publishing a newsletter early in the year as the outlook was far from certain and the impact of possible trade wars and less spectacular growth in China was weighing heavily on stock prices. Now that markets have partially recovered from the steeper falls in Q1 and a somewhat more stable outlook has returned, it seemed more appropriate to analyse the current chemicals M&A activity with a higher degree of balance.

It is clear from the 2018Q4 and 2019Q1 results, that some chemical company profits have been hit by a slowdown in auto sales in China and Europe – with many coatings, pigments, polymers and some specialty chemical companies reporting weaker margins due to lower revenues and also an increase in raw material pricing. However, the majority of the companies have since reported robust results, and with signs the auto sector is returning to growth, there is a more positive outlook for 2019 profits.

The market declines in Q1 have now reversed such that shares and trading multiples have moved back closer to 2018 levels. Consequently, valuations and transaction multiples have remained at the same levels seen over the last several years with little sign of any significant decrease. The fundamental drivers of scarcity of high quality targets, low interest rates, availability of debt and the shift of the chemical industry downstream, remain in place. The result is that average trading and transaction multiples levels are at similar levels to the last few years at c. 11-12x EBITDA (as shown in Figures 1 and 2).

It appears strategic and financial investors are committed to making acquisitions in chemical companies irrespective of short-term market fluctuations. Strategics are maintaining their appetite for bolt-ons, performance chemicals and even transformational deals, while private equity investors appear to have even increased their appetite for broader range of chemicals.

Figure 1: Chemical Company Trading Multiples



The Valence Group Analysis based on 59 mostly European and North American chemical companies.

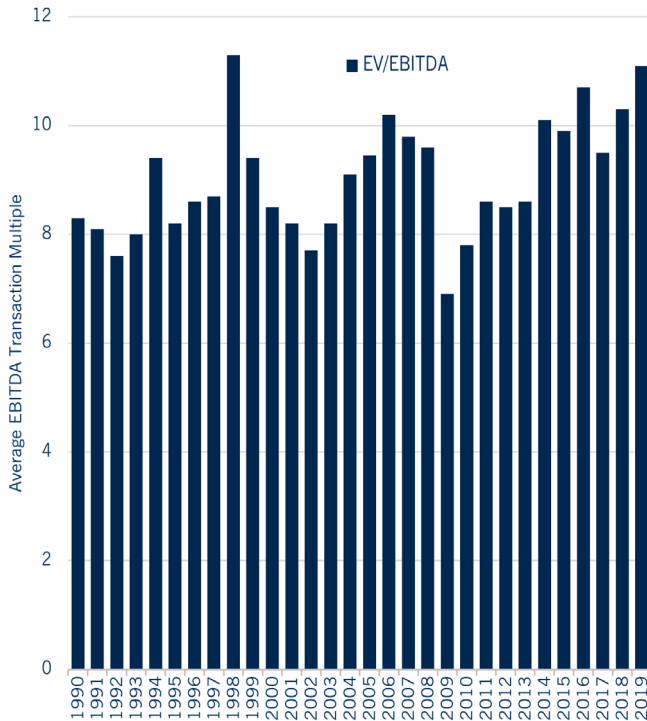
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Some of the most recent deals confirm the strong M&A demand and willingness of acquirors to stretch to further business strategic or financial goals. Notable transactions in the last months include:

- Arkema – ArrMaz
- Advent – Evonik Methacrylates
- Merck Kgaa – Versum
- Sika – Parex
- Nippon Paint – Dulux (Australia)
- Ineos – Tronox (Cristal US assets)

All demonstrate not only the level of valuation, but the desire of companies to make bold strategic moves to ensure a strong longer term position.

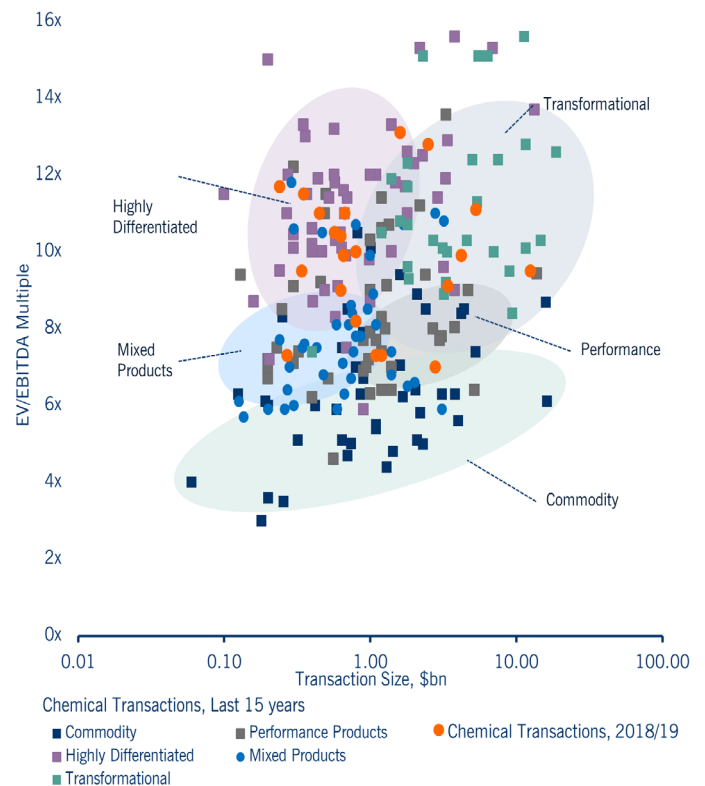
Figure 2: Chemical Company Transaction Multiples



The Valence Group Analysis. Disclosed Transactions > c.\$200m
2019 from January-April 2019

High average transaction multiples also demonstrate that companies acknowledge the current valuation levels are driven by healthy M&A demand and the necessity to acquire to protect their business growth. The recent acquisition of Versum is a good example. Examining transaction multiples by type of transaction in 2018/19 shows a discernable shift in value. Figure 3 shows EBITDA multiples paid have moved above historical averages. The “red dots” show the transactions of the last 16 months which are well above previous averages. The reason is two-fold: valuations have risen and there are now more specialty/performance chemicals acquisitions. This latter effect also explains why transaction multiples are at near all time highs (see next section).

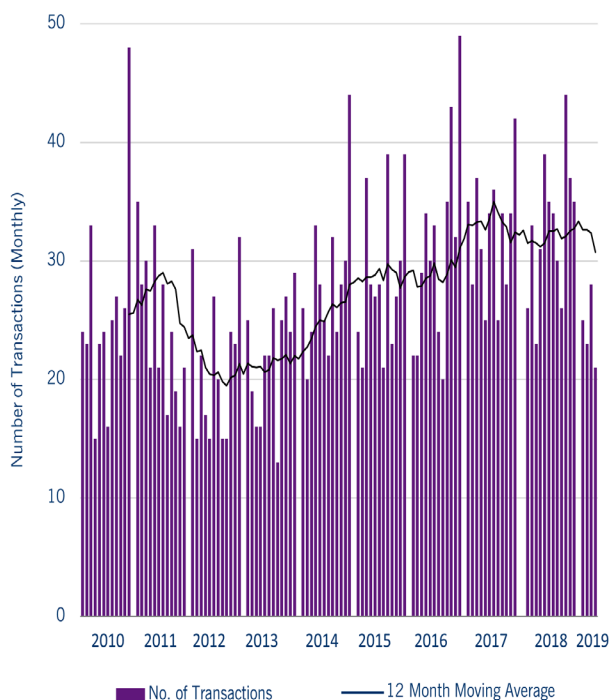
Figure 3: Transaction Multiples by Type



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Transaction volumes have also stayed at a high level as shown in Figure 4. Monthly numbers show approximately the same amount of transactions compared to the last few years. The last quarter of 2018 was actually one of the strongest in the last 10 years. There has been a cooling in Q1 2019 but this is likely related to declines in US and European stocks and the natural delay in bringing businesses to market. The forecast of healthy deal flow for the rest of 2019 should translate into rising transaction levels again in 2019 Q2/3. Some larger deals such as BASF Construction Chemicals, BASF Pigments and Clariant Pigments all slated to come to market soon, highlight the strength of the M&A market.

Figure 4: Monthly Chemicals M&A Volumes



Segment Valuations

Examining average valuations across the chemicals industry unfortunately hides much of the detail and drivers across the different sectors. Undeniably the chemical industry is comprised of multiple sectors, sub-sectors and even products, with some interlinkages but often different dynamics. Some sectors are almost separate industries.

For example, as outlined in previous newsletters, consolidation across chemicals is highly varied. It has now progressed to the extent that the top 2-3 companies account for more than 50% of the global market across numerous chemical sectors and products, whereas some remain relatively fragmented. More specifically, by our last analysis, more than 50% of chemical sectors are already consolidated (2-3 companies have more than 50% share of a product or sector). The significant consolidation in the last few years has been in the downstream “high end” specialties or performance products.

The shift of many European and US companies to move downstream has created larger more focused companies with both increased margins, stronger market positions and improved profit growth prospects. As a consequence, there has been a substantial increase in valuation of sub-segments such as food ingredients, flavors and fragrances, catalysts, coatings and electronic chemicals.

But intermediates, commodity and diversified chemical companies have barely shown any change in EBITDA multiples over the same period, so valuations across chemicals have diverged to such an extent that diversified and more commodity chemicals now trade at only 50% of their more focused specialty peers.

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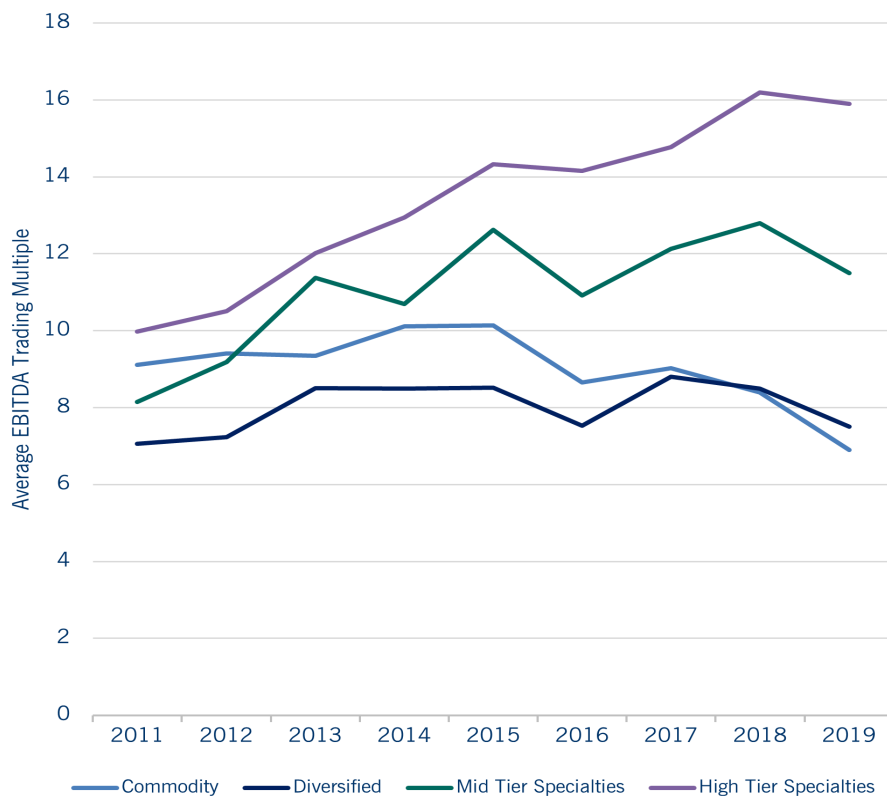
Figure 5 shows this “decoupling” of value across the chemical industry. This also explains the continued strength of the average chemicals trading multiples despite some more visible share price declines of larger chemical companies.

Although some more commodity or diversified companies have not seen valuations shift significantly, the more high tier specialty companies in the above sectors have seen their valuations rise dramatically. The reasons behind this latter rise include less cyclical profitability, higher margins, higher growth rates and better overall positioning because of consolidation and barriers to entry. Naturally, many of these sectors and companies are also M&A targets and this in turn increases valuation multiples.

Some of the most highly valued chemical companies are also those with leadership positions in their sectors (which are often consolidated) and this further adds to the growth and valuation. Many of these companies are much smaller than the more diversified peers but are more focused (e.g. Symrise, Croda and Victrex). Perhaps larger diversified groups, intermediates and more cyclical commodities will never be able to achieve the growth and profit stability of their more focused peers.

Therefore, there is now a general reassessment that analysing the chemical industry as a whole is rather meaningless and each segment is an industry in itself and, rather than scale, diversification or even integration, being a segment specialist or leader is the real key to success.

Figure 5: Trading Multiples by Chemical Segment



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Focus versus Diversification

If focus and specialisation in certain segments (or products) drives performance and value, the question arises: *can a diversified company become a leader across consolidated segments, thereby achieving multiple focused and specialised positions and correspondingly higher margins and value?*

To try and answer this question we analysed profit margins across different competitive dynamics and different business types. As a first confirmatory evaluation, Figure 6 shows an example of the link of consolidation to profit – generally leading companies in more consolidated products or sectors have higher margins. This positive correlation should not be a surprise.

Figure 6: Consolidation Link to Profit (Examples)

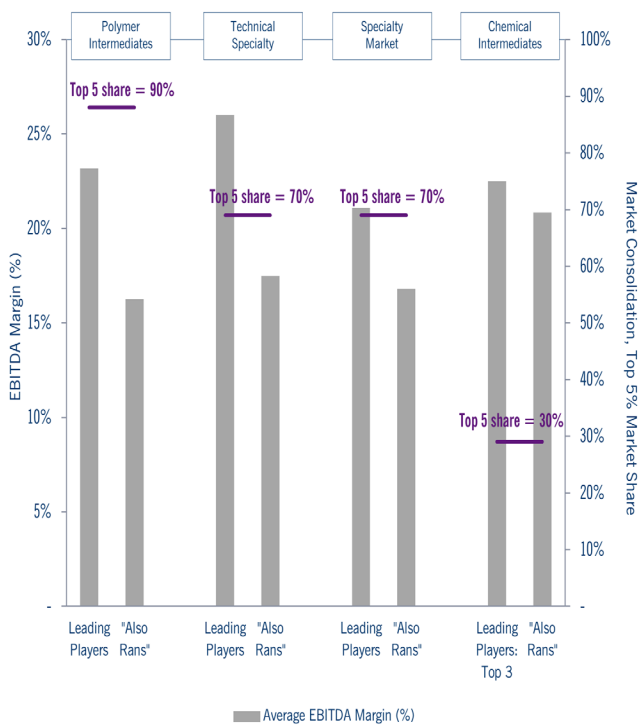
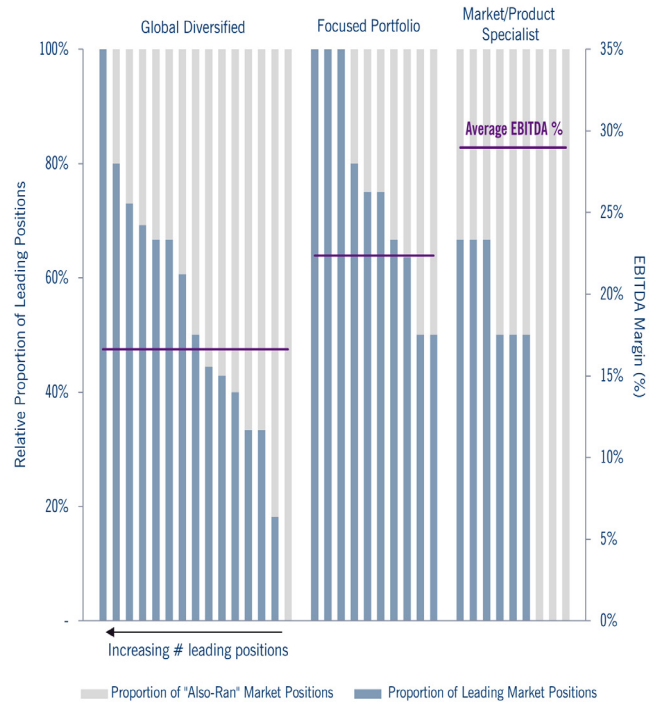


Figure 7: Profitability by Chemical Company Type and Position



More importantly, a further analysis of the types of companies with different leading positions in their chosen sectors shows that focused or specialist companies, irrespective of leading positions, have the highest profit margins.

Figure 7 shows this analysis with diversified companies having the lowest margins, whereas focused and “market and product specialist” companies have the highest margins. Most telling from the analysis is that having leading positions is of less importance than the type of company.

In other words, simply being in a more focused company is more, or at least as important, as being a leader in a sector. Being a market or product specialist is more important still.

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Of course, level of consolidation and sector dynamics will certainly play a role but to maximise profit margins, focus and specialisation are evidently the most important criteria. Unfortunately, for diversified chemical companies there appears to be little chance of achieving the same profit success as their more focused peers.

As Figure 8 shows, irrespective of the number of leading positions a diversified company holds, profitability is not linked to leadership positions or sector specialisation for these companies. So being a multi-segment specialist or having leadership positions does not deliver higher margins for diversified companies.

Figure 8: Diversified Chemical Company Profitability by Position



The drawbacks of a large company outweigh the benefits of a narrow portfolio. This is probably due to inflated cost structures, stretched management attention, competing demands for investment and perhaps less rational investment decisions, as well as less focused sales teams, all combining to reduce profit in larger companies.

The message appears to be that market/product specialisation drives margin for smaller focused companies whereas larger companies need to focus on cost and consolidation and forget trying to be “multispecialists”.

In terms of value creation and M&A, there are three key conclusions that can be drawn from the above:

1. For larger companies, acquiring “new legs” to the business is less likely to result in higher margins and more value will be created through consolidation and so called “bolt-ons”.
2. For diversified companies with large portfolios, more value in terms of margin growth will be achieved through separation of businesses (e.g. through divestments, spin-offs, RMTs, IPOs etc.)
3. The chemical industry continues to consolidate and the most value will be created by the growing market and product specialist companies through both organic and M&A growth.

Scale will always be important in upstream commodity chemicals but the industry will continue to realign along more focused lines and the growth of larger diversified groups has probably reached a plateau.

This will fundamentally change the chemical industry in the next few years and M&A will be a major part of this repositioning of companies and sectors.



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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 Valence Group 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 and materials sector.

The firm's offices are located in New York and London.

INEOS
is selling its
Melamines & Paraform businesses to

**prefere
resins**

The Valence Group acted as
Financial Advisor to INEOS Enterprises

DUNES POINT CAPITAL
has sold

MILLER

to

HUBER

The Valence Group acted as
Financial Advisor to Dunes Point Capital

Charlesbank
CAPITAL PARTNERS L.L.C.
has sold

PLASKOLITE

to

PPC Partners

The Valence Group acted as
Financial Advisor to Charlesbank

THE CARLYLE GROUP | **GIC**
have acquired the
Specialty Chemicals business of

AkzoNobel

since renamed

Nouryon

The Valence Group acted as
Financial Advisor to Carlyle

SOLENIS
a portfolio company of

**CLAYTON
DUBILIER
& RICE**

has merged with the
Paper and Water Chemicals business of

BASF

The Valence Group acted as
Financial Advisor to Solenis

US SILICA
has acquired

Ep Minerals
a portfolio company of

GOLDEN GATE CAPITAL

The Valence Group issued a
Fairness Opinion to the
Board of Directors of U.S. Silica

ITAÚSA
has sold

Elekeiroz

to

**H. I. G.
CAPITAL**

The Valence Group acted as
Financial Advisor to Itaúsa

ChemicalInvest
a joint venture of

DSM | **CVC**
Capital Partners

has sold

FIBRANT
to

HSC

The Valence Group acted as
Financial Advisor to ChemicalInvest

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

AICL

The Valence Group acted as
Financial Advisor to SK Capital

Ep Minerals
a portfolio company of

GOLDEN GATE CAPITAL
has acquired the
Bleaching Clay & Mineral Adsorbents
business of

BASF

The Valence Group acted as
Financial Advisor to Golden Gate

Quaker
is acquiring

HOUGHTON

from

Gulf

The Valence Group issued a
Fairness Opinion to the Board of Directors
of Quaker Chemical

ARCHROMA
a portfolio company of

SK CAPITAL
has been recapitalized

The Valence Group issued a
Fairness Opinion to SK Capital



NMC
NEW MOUNTAIN CAPITAL LLC
has partnered with



Gelest

The Valence Group acted as
Financial Advisor to New Mountain Capital



Niacet
has been sold to



SK CAPITAL

The Valence Group acted as
Financial Advisor to Niacet

ROCKWOOD  THEBE 

have sold



Safripol
to



KAP

The Valence Group acted as
Financial Advisor to Safripol



EVONIK
has acquired the Silica business of



HUBER

The Valence Group acted as
Financial Advisor to Evonik



canexus
has been sold to




CHEMTRADE

The Valence Group acted as
Financial Advisor to Canexus



DOW
has sold

SAFECHEM 

to



cbpe
capital

The Valence Group acted as
Financial Advisor to Dow



EVONIK
has acquired the Performance Materials
business of



AIR PRODUCTS

The Valence Group acted as
Financial Advisor to Evonik

INEOS
has sold its Expandable Polystyrene
business to



synthos

The Valence Group acted as
Financial Advisor to INEOS



eurazeo
has acquired



novacap
a portfolio company of

ARDIAN

The Valence Group acted as
Financial Advisor to Eurazeo

Arsenal | Capital Partners

has acquired



Pacific Urethanes

The Valence Group acted as
Financial Advisor to Arsenal



SPECIALTY COATING SYSTEMS™
a portfolio company of



BERWIND
has been sold to



KISCO

The Valence Group acted as
Financial Advisor to Berwind

Arsenal | Capital Partners

has sold



ROYAL
ADHESIVES & SEALANTS
to



AMERICAN SECURITIES

The Valence Group acted as
Financial Advisor to Arsenal



nubiola
has been sold to



FERRO

The Valence Group acted as
Financial Advisor to Nubiola

INEOS SOLVAY

has sold certain Chlorvinyls
businesses as a remedy to secure
European Commission approval of
INOYNN, their planned PVC JV, to

INTERNATIONAL CHEMICAL INVESTORS
GROUP

The Valence Group acted as
Financial Advisor to INEOS/Solvay



DSM
has sold, via a JV with a critical offtake
contract, a collection of businesses to



CVC
Capital Partners

The Valence Group acted as
Financial Advisor to DSM



DOW
has sold its Sodium Borohydride business to



Vertellus
a portfolio company of



WIND POINT PARTNERS

The Valence Group acted as
Financial Advisor to Dow

cbpe
capital
has sold
Warwick
Chemicals
to
Lubrizol

The Valence Group acted as Financial Advisor to CBPE Capital

HSC CORPORATION
(Zhangjiagang, China)
has been sold to
CYG长园
ChangYuan Group
(Shenzen, China)

The Valence Group acted as Financial Advisor to HSC

Permira
has acquired
CABB
from
Bridgepoint

The Valence Group acted as Financial Advisor to Permira

TESSENDERLO GROUP
has sold its Compounds business to
MITSUBISHI CHEMICAL

The Valence Group acted as Financial Advisor to Tessenderlo

Solutia
has been sold to
EASTMAN

The Valence Group acted as Independent Advisor to the Board of Directors of Solutia

ARKEMA
has sold its Tinstabilizer business to
PMC

The Valence Group acted as Financial Advisor to Arkema

Arsenal | Capital Partners
and
FOOSUNG
have sold
NOVOLYTE
technologies
to
BASF

The Valence Group acted as Financial Advisor to Arsenal

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

The Valence Group acted as Financial Advisor to Arsenal

Niacet
has acquired
ChemSolutions B.V.
from
kemira

The Valence Group acted as Financial Advisor to Niacet

IGM
RESINS
OF HANOUKE SPECIALTIES
has been sold to
Arsenal | Capital Partners

The Valence Group acted as Financial Advisor to IGM Resins

KENNAMETAL
has acquired
Deloro
Stellite
from
DUKE STREET

The Valence Group acted as Financial Advisor to Kennametal

PolyOne
has acquired
ColorMatrix
from
Andax Group

The Valence Group acted as Financial Advisor to PolyOne and issued a Fairness opinion to PolyOne's Board of Directors

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

The Valence Group acted as Financial Advisor to Cytec

EASTMAN
has acquired
GENOVIQUE
SPECIALTIES, LLC
from
Arsenal | Capital Partners

The Valence Group acted as Financial Advisor to Eastman

cognis
has sold its UV Acrylates business
to
IGM
RESINS
OF HANOUKE SPECIALTIES

The Valence Group acted as Financial Advisor to Cognis

PolyOne
has sold its 50% ownership interest in
SunBelt Chlor Alkali Partnership to
olin

The Valence Group acted as Financial Advisor to PolyOne