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theValenceGroup

Chemicals M&A Review

Highlights

- Chemicals M&A volumes and valuations have picked up in the second half of 2019 despite slowing global growth
- Over 50% of the chemical industry is now consolidated and selected performance chemicals sectors are increasingly the main acquisition targets
- Outlook for M&A for 2020 remains robust as performance chemicals profits outperform and acquisitions become increasingly attractive

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INDORAMA VENTURES *is acquiring the Integrated Oxides and Derivatives businesses of* HUNTSMAN

The Valence Group acted as Financial Advisor to Indorama Ventures

synthomer *is acquiring* OMNOVA SOLUTIONS

The Valence Group acted as Financial Advisor to Synthomer

ARKEMA *has acquired* 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

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Chemicals M&A Review

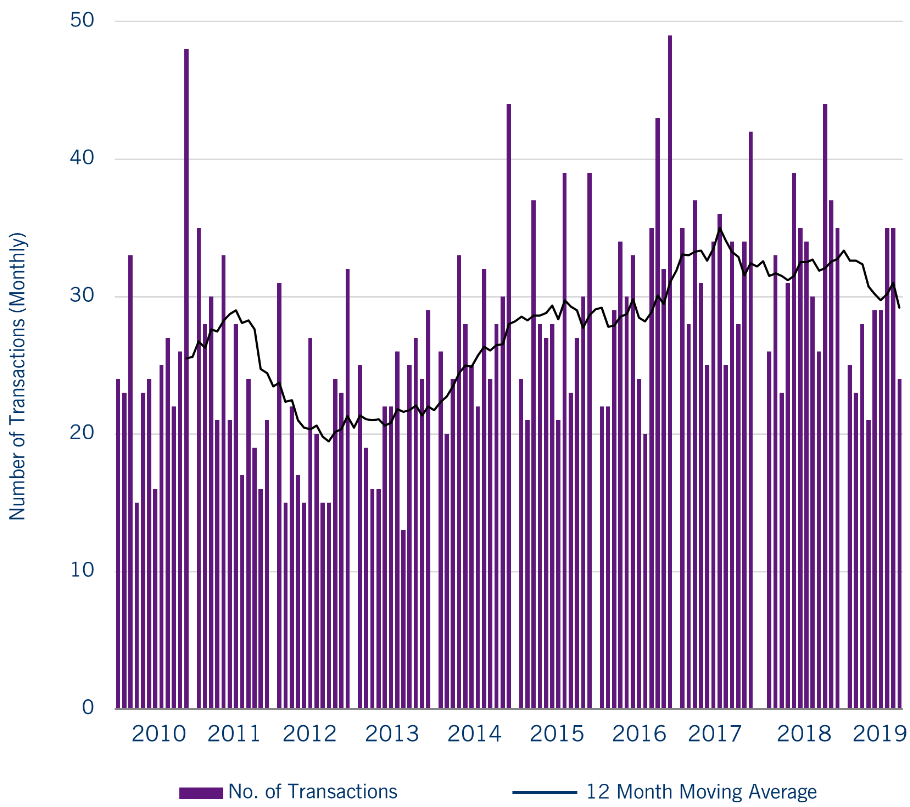
Chemicals M&A Overview

As we head into the last quarter of 2019, despite early predictions of slower growth, more volatile markets and possibly slower M&A markets, there is, at present, limited evidence of declining transaction activity. Chemical company EBITDA trading multiples remain at the levels of the last several years. Indeed, since the beginning of the year, share prices have risen moderately for some companies leading to a small rebound in trading multiples compared to Q1 2019.

Economic indicators are generally moving sideways or downwards in parts of Europe and China, with even the US showing initial signs of weakness.

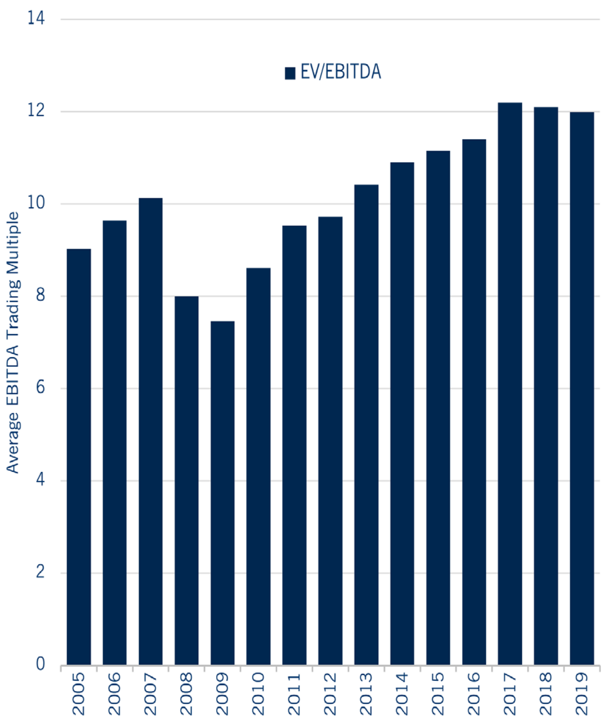
At present this seems to be limited mainly to the auto and related sectors which have seen very strong growth in the last few years, particularly in China. A pause in expansion is more than expected, especially with the uncertainty around diesel, electric and new emission and other standards globally. Nevertheless, with IMF forecasting global growth this year of only 3% (which is the lowest since 2008/9) and a meagre 1.7% for advanced economies, we would have expected to see a significant impact on M&A which has not materialized. Although overall we have seen marginally lower deal volumes, this is mostly in Asia and generally chemicals M&A volumes are still at the same high levels of the last 3-4 years as shown in Figure 1.

Figure 1: Monthly Chemicals M&A Volumes



There is also no decline in chemicals M&A valuations in 2019 with only a moderately discernable softening from the recent higher levels. As shown in Figure 2, chemical company trading multiples have been broadly at the same level for the last few years at 12x EV/EBITDA.

Figure 2: Chemical Company Trading Multiples

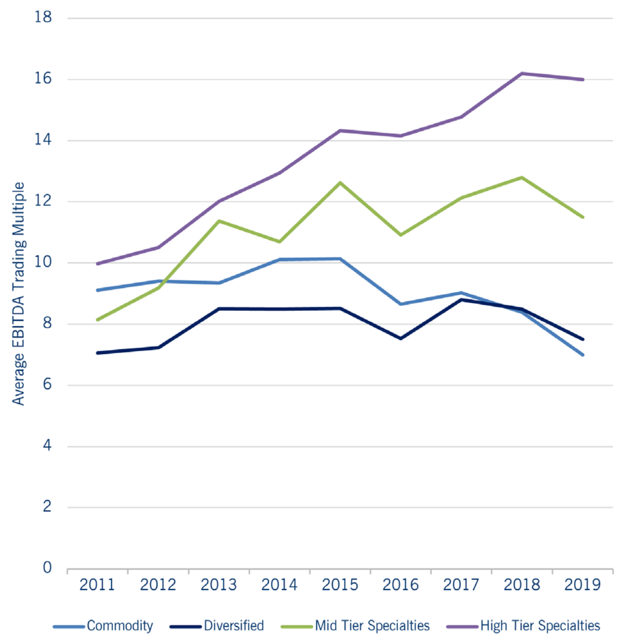


The Valence Group analysis based on 59 mostly European and North American chemical companies.

Furthermore, average valuations have been above 11x now since 2013, indicating that these multiple levels are now entrenched across the industry. As noted previously, much of the value is driven by the higher (profit) growth companies which tend to be the higher and mid-tier specialities. Figure 3 clearly shows how specialty chemical valuations have increased by 40% in the last 10 years (both high and mid tier) and have largely underpinned the market valuation rise.

Diversified and commodity chemical companies in contrast have seen a slump in valuations in the last years as growth has slowed and profits have stagnated (this is mainly due to falling profits as we show in the last section).

Figure 3: Trading Multiples by Chemical Segment

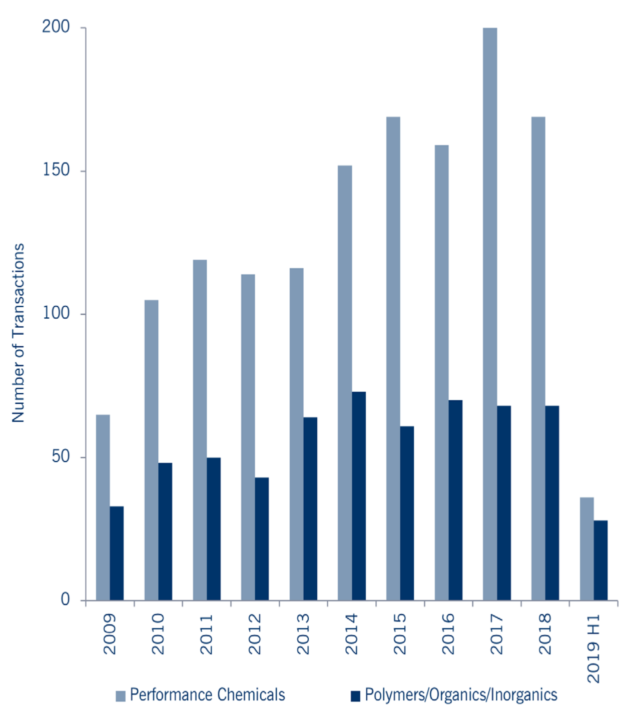


The Valence Group analysis

We have shown in previous analysis that profit growth is the major driver of valuation. However, an additional key factor is the continued industry move downstream through organic investment and more importantly acquisitions. The chemical industry has been restructuring for the last 10-15 years as companies move further away from commodity and intermediate chemicals, and this trend has been accelerating in the last few years. As we have noted in recent newsletters, European, Japanese and US companies are continuing to look for and make acquisitions in such areas of performance chemicals as food ingredients, specialty additives and surfactants, electronic chemicals and composites.

This move downstream has had two effects. Firstly, competition for higher quality performance chemicals businesses has become more intense pushing up transaction and trading multiples due to both scarcity and competitive intensity. Secondly, so-called underperforming companies (in terms of stock valuations) have been forced to improve valuations through targeted M&A themselves, either to consolidate their position or divest underperforming divisions. The overall consequence has been the continued rise in valuation of specialty/performance chemicals and, as shown in Figure 4, the almost continual increase in performance chemicals M&A. This entire industry restructuring will reinforce M&A volumes well into the next decade.

Figure 4: Number of Transactions by Sector



The Valence Group analysis

This year in particular has seen this M&A trend quickening, with most recent transactions all demonstrating the industry consolidation or move downstream:

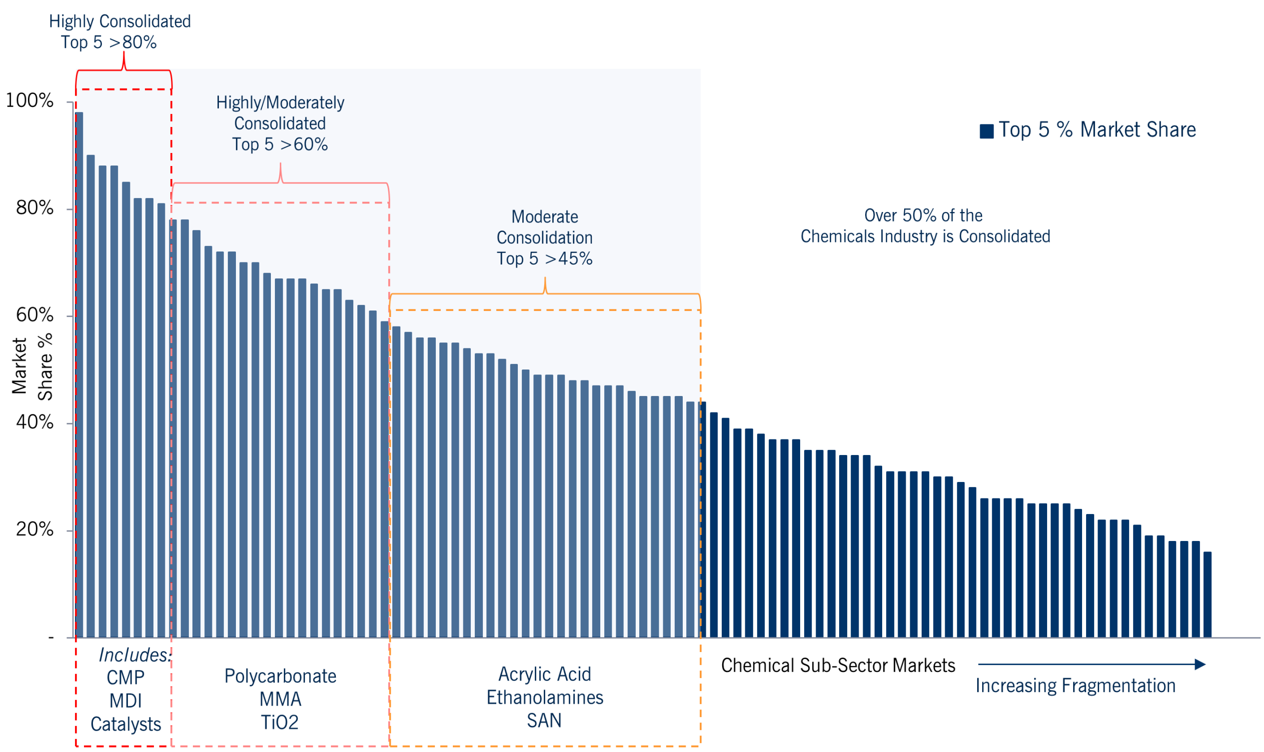
Indorama – Huntsman (upstream EO, PO and related products)
Synthomer – Omnova
DIC – BASF Pigments
Firmenich – Robertet

Sector M&A and Consolidation

Up until the financial crash of 2008/09, there was a belief in the chemical industry that with the sheer scale and breadth of chemical products and companies, there would always be scope for acquisitions, further consolidation abundant growth opportunities through M&A. But, the expansion of Chinese production across intermediates and some performance chemicals, the growth of Middle East production and the shale gas revolution changed the industry dynamics fundamentally. The rapid realignment and shift over the last 10 years altered the structure of the industry. All this occurred in relatively slow growth economic environments, especially in developed regions. This combination, coupled with the greater focus on profit rather than capacity expansion, has created a highly consolidated industry with rapidly diminishing high quality acquisition options.

Our analysis of the industry shows that already nearly 50% of the major chemical products/sectors are consolidated. Figure 5 displays a representative extract of the c. 200 products/segments that The Valence Group tracks and it shows that consolidation across the industry is far advanced with some areas such as MDI, CMP slurries and polycarbonate already limited to only a few major competitors. The only areas where there is a more fragmented supply base are in products where multiple Chinese manufacturers entered in the last 10-15 years or in selected performance chemicals.

Figure 5: Chemical Industry Consolidation by Product / Market Segment

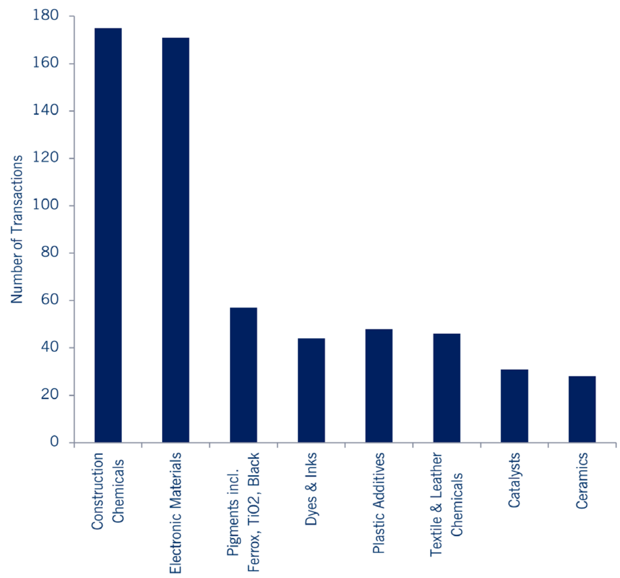


The Valence Group Analysis of 223 companies (extract)

Even in China, with tighter environmental controls and less financial latitude for Chinese companies, we have seen supply contraction. This degree of consolidation has resulted in more resilient profitability for many product areas but in slower economic environments, while at the same time constraining growth through acquisition (both for regulatory reasons and limited options). Therefore, with the industry consolidating rapidly across many sectors and larger companies moving downstream, there is significant competition for the more attractive targets. This has only served to accelerate M&A and, where possible, further consolidation, particularly in more fragmented performance chemicals sectors. Areas such as paints and coatings, electronic chemicals, food and feed ingredients, and flavors and fragrances are still undergoing consolidation as competitors and new entrants continue to build positions while opportunities are still available. Obviously, this level of activity has a limit and so companies are acting now before it is too late. For other commodities, base polymers and intermediates, the level of M&A is lower (with a few exceptions), as many of these products are already relatively concentrated or may be less attractive in terms of growth.

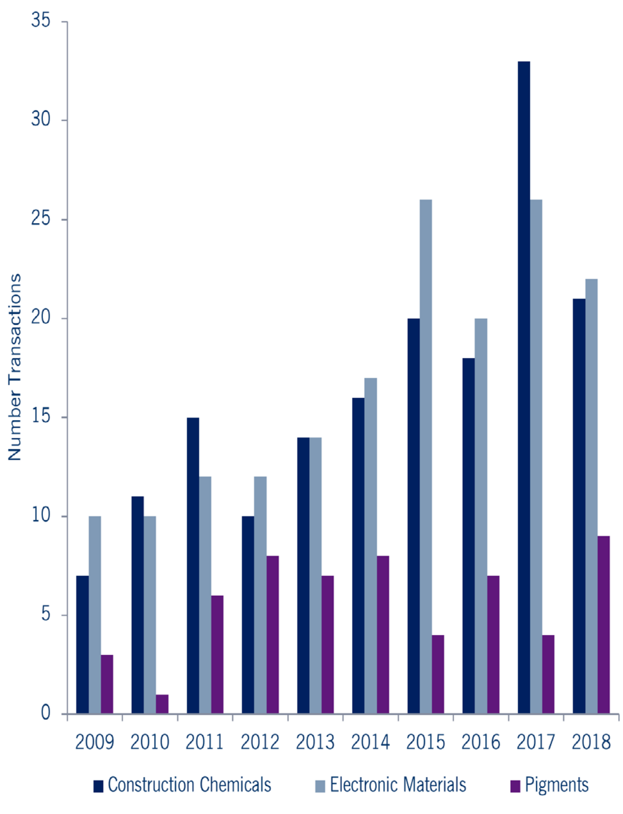
The more recent focus of M&A in performance chemicals is directed towards the higher growth and still fragmented areas. Figures 6, 7 and 8 amply emphasize how sectors such as construction chemicals (still highly fragmented) have witnessed increased M&A, whereas more mature sectors such as pigments and catalysts are now in the latter stages of consolidation. This is the pattern that we expect to continue for the next c. 5 years.

Figure 6: Transactions by Sub-Sector (Selective)



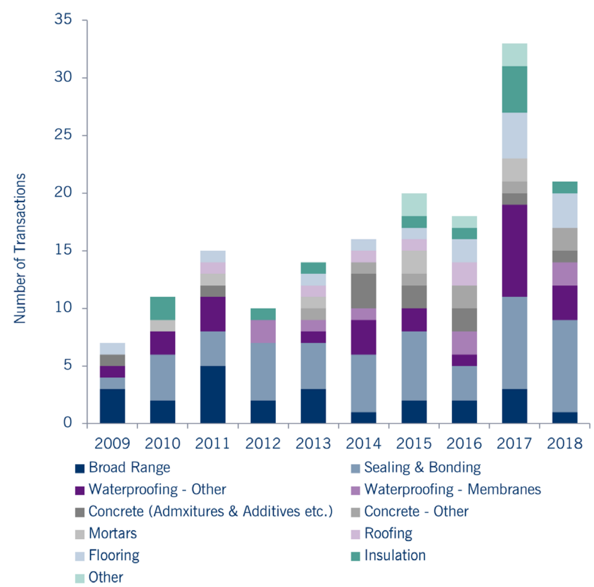
The Valence Group analysis

Figure 7: Yearly Transactions by Sub-Sector



The Valence Group analysis

Figure 8: Transactions in Construction Chemicals by Product



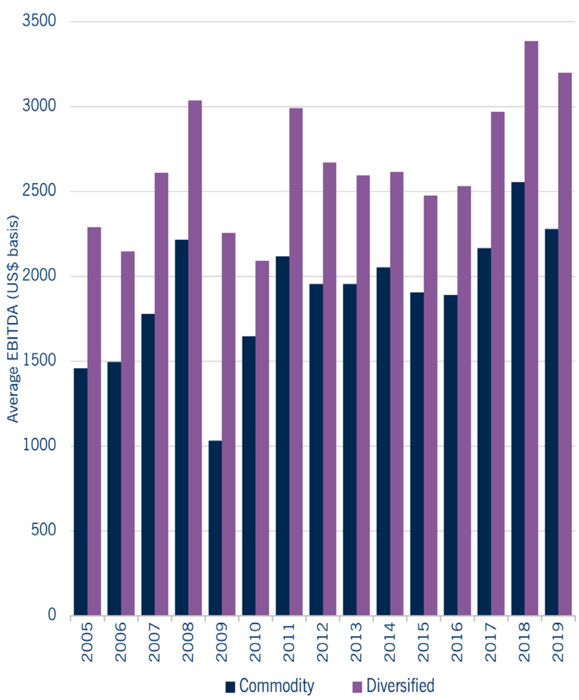
The Valence Group analysis

Chemicals M&A 2020 Outlook

The outlook for M&A will depend heavily on the global economic outlook, the evolution of trade disputes and chemical company profitability. Corporate results have been mixed in 2019, with larger bellwether companies such as BASF, Huntsman, Covestro and Eastman reporting weaker profits in the most recent quarters, partially balanced by more robust results in the specialty chemical sector. Diversified and commodity chemicals average EBITDA is shown in Figure 9 and there is distinct evidence in the first half of 2019 of declining profits.

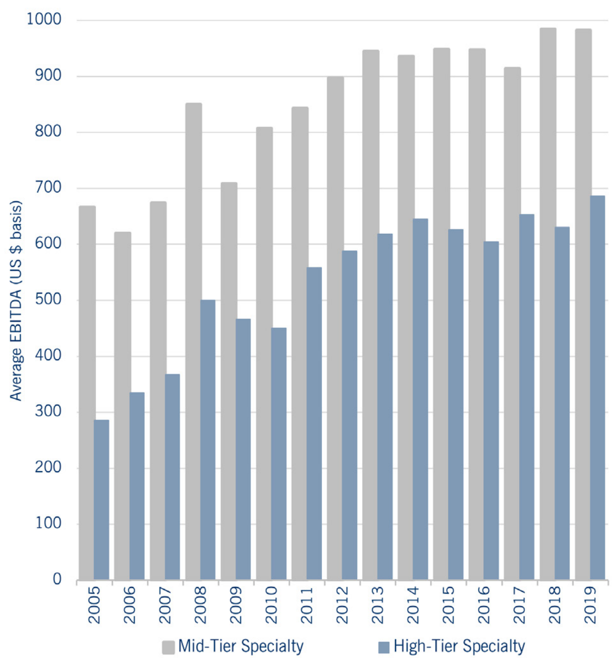
In contrast, mid and high-tier specialty chemicals have maintained profits with even some degree of growth as illustrated in Figure 10. This combination of weaker upstream profits and better returns in performance chemicals will only serve to spur the industry realignment further, as companies continue to move downstream seeking less volatile profit growth. The implication for M&A is one of continued consolidation and acquisition of performance chemical companies irrespective of global economic outlook. Clearly, the chemicals industry is not isolated from global impacts, but the dynamics of the industry will continue to support M&A and therefore we would expect to see continued high volumes of M&A across chemicals.

Figure 9: Average Profit by Chemical Company Type



The Valence Group Analysis of 44 companies

Figure 10: Average Profit by Chemical Company Type



The Valence Group Analysis of 52 companies

Additionally, with private equity still holding enormous financial “firepower”, strong industry balance sheets and limited organic growth options, it will be difficult for companies to persist with share buy-backs or build-up of cash, so acquisitions and divestment of non-core businesses will continue as a major strategic avenue.

There is no evidence, even if global growth remains weak, that profitability will fall precipitously; and indeed with a US election year in 2020, we would expect some fiscal stimuli in US and perhaps also China. Under these latter circumstances, the outlook for 2020 for chemicals M&A is weighted more heavily on the upside. It appears the strong chemicals M&A market is set to continue.

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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.

SK Capital
has acquired the Performance Products and Solutions Division from
PolyOne
The Valence Group acted as Financial Advisor to SK Capital

CPS Performance Materials Corp
a portfolio company of
Arsenal Capital Partners
has acquired
GEO Specialty Chemicals
The Valence Group acted as Financial Advisor to CPS/Arsenal

Golden Gate Capital
has acquired
ActiveMinerals International, LLC
from
Merit Capital Partners
The Valence Group acted as Financial Advisor to Golden Gate

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

INEOS
has sold 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 LLC
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 porfolio 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

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SK Capital

has acquired the
Fire Safety and Oil Additives businesses of

ICL

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

has acquired

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

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

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
INOVYN, their planned PVC JV, to

International Chemical Investors
Group

The Valence Group acted as
Financial Advisor to INEOS/Solvay

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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
has been sold to
Arsenal Capital Partners
The Valence Group acted as Financial Advisor to IGM Resins

PolyOne
has acquired
ColorMatrix
from
Audax Group
The Valence Group acted as Financial Advisor to PolyOne and issued a Fainess 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
from
Arsenal Capital Partners
The Valence Group acted as Financial Advisor to Eastman

PolyOne
has sold its 50% ownership interest in SunBelt Chlor Alkali Partnership to
Olin
The Valence Group acted as Financial Advisor to PolyOne

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The Chemicals M&A Specialists

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