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Chemicals M&A Market Update

JULY 2024

Highlights

- Q1 2024 chemical company profits pick-up and confidence is returning across many sectors with product pricing evening out and starting to increase
- Valuations and multiples are now above historic averages but not expected to rise further, as increasing profits are not forecast to translate yet into higher multiples
- European diversified chemical companies EBITDA multiples continue to trade at an almost 20% discount to U.S. peers, despite the broader markets remaining in lockstep in the U.S. and Europe
- Piper Sandler Chemicals M&A Conference in New York, November 12th, 2024 speakers include CEOs from **Dow, IFF, Element Solutions, Syensqo** & **Solenis**

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MARKET UPDATE

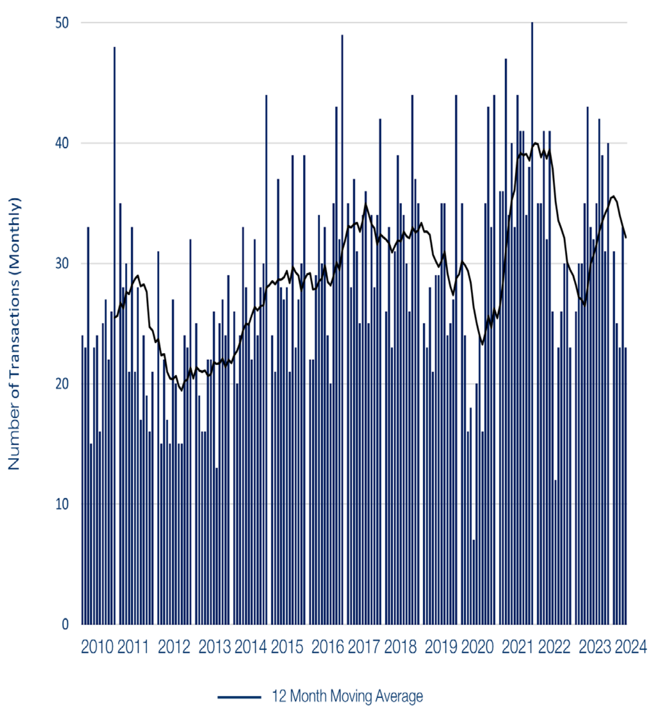
Mixed signals over the last 6-9 months regarding company profits, interest rates and end-market demand in North America and Western Europe have finally started to align in a more positive direction. Certainly Q4 2023 and most of Q1 2024 has seen a subdued chemicals M&A market, even if the broader market has been somewhat more active. However, the last two months has witnessed a relative flurry of behind-the-scenes activity. Both corporates and financial sponsors have been preparing businesses for sale or considering divestment options with the expectation that more businesses and carve-outs will come to market in the second half of this year.

As shown in Figure 1, actual deal volumes have started to rise modestly after hitting a dip last year. We know from our own business at Piper Sandler Chemicals and recent deal announcements for Arsenal Capital, Henkel, Golden Gate Capital, US Silica and SK Capital, plus multiple engagements currently in the market or soon to be launched, that M&A activity and volumes are rising. Most of the general market increase is in smaller value deals, while volumes have risen in China after a long period of hibernation during and post-Covid. Only recently have larger value transactions such as IFF Pharma Solutions and US Silica started to become more common, reflecting the greater confidence in the market. The potential Covestro-ADNOC deal is perhaps the greatest vote of confidence and a bold move especially in such a volatile and competitive area as European intermediates.

CHEMICAL COMPANY PROFITS

Clearly the increased availability of debt has been a key factor in underpinning the market, but also the prospect of lower interest rates. Rising stock markets have also bolstered confidence, and coupled with the dearth of activity since 2022 and the need to both buy and sell, it is easy to understand why the M&A market is coming back to life. Additionally, and perhaps most importantly, profits across chemical companies in Q1 have risen (Figure 2) and the outlook for Q2 is positive. Of particular note is that profits have increased in all subsectors in Q1 with even commodity and intermediate chemicals registering gains. Recent economic indicators in the Eurozone, China and the U.S. have started to rise: purchasing index in the Eurozone (PMI Manufacturing) above 50, China GDP registering reasonable growth, consumer confidence moving closer to 2019 pre-pandemic levels, falling inflation and of course, robust U.S. GDP growth. In combination with AI-induced optimism, this has boosted overall confidence across chemicals and consequently there is more desire to start deploying capital for M&A.

FIGURE 1: MONTHLY CHEMICALS M&A TRANSACTION VOLUMES



Piper Sandler and Capiq analysis. Deals above $10m

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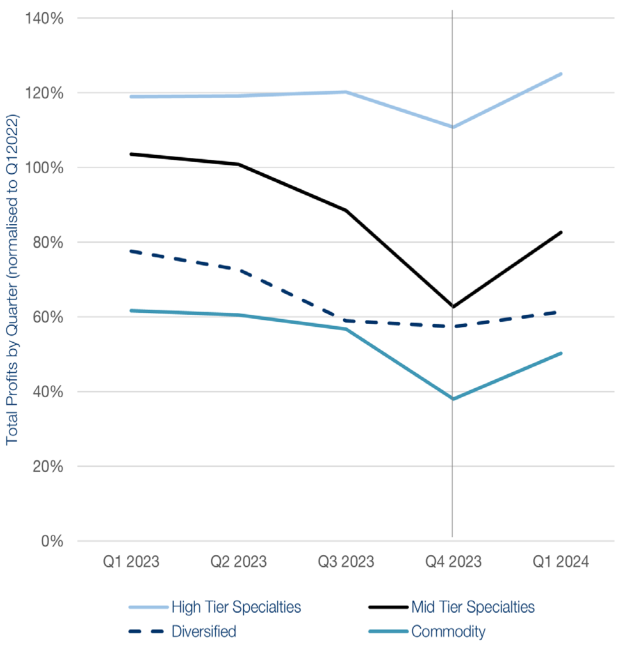
FIGURE 2: CHEMICAL COMPANY PROFITS BY SEGMENT BY QUARTER 2023-24



Piper Sandler analysis based on mostly European and North American chemical companies

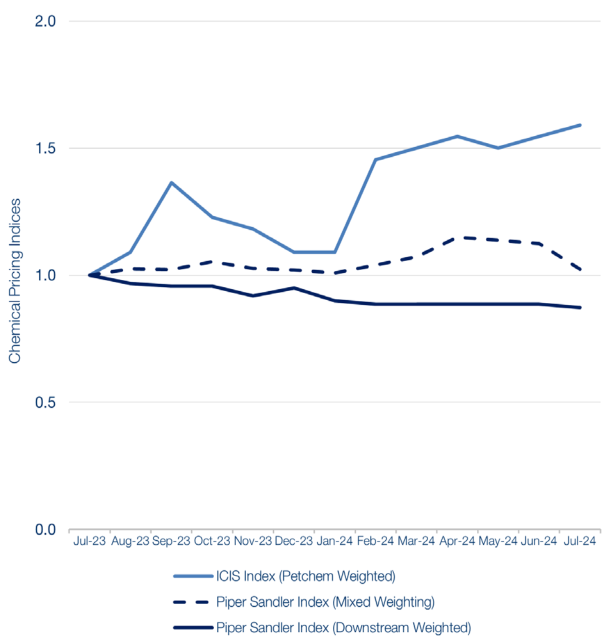
has picked up significantly. Companies as varied as Heubach, OQ, LyondellBasell, Lanxess and Evonik have all announced restructuring, divestment or strategic reviews of European assets and this trend is expected to continue. This will certainly boost volumes of M&A in the region but is probably not the increased transaction volumes that the European chemical industry was envisioning a few years ago.

With renewed stability in the commodity and intermediates part of the market, there have been further developments in the divestment of more upstream businesses (and not only in Europe). As an example, at least four companies across Asia, Europe and the Americas are launching or reviewing strategic options for C4 chain product areas. The combination of more stable pricing or less destocking, with a desire to exit more cyclical or volatile businesses, is pushing more companies to look at all the strategic options in these areas.

Chemical pricing has reflected the above with stabilisation or a floor in pricing appearing to have been reached across a range of products. Although consumer demand remains weak in some areas, there is now a better supply demand balance across chemicals and Chinese imports are having less impact (or at least it is not worsening), with the result that pricing has started to stabilise and actually increase in some commodity and intermediate product chains. Figure 3 shows a composite index of several chemicals, and the sharp fall of the last few years now appears to have turned a corner with petrochemical prices rising and intermediates stabilising globally.

Unfortunately, the pricing of energy and related base chemicals in Europe has had a chilling effect on profitability on some parts of the value chain, such that divestment processes for upstream chemicals

FIGURE 3: CHEMICAL PRODUCT PRICING INDEX 2023-24



Piper Sandler and ICIS analysis

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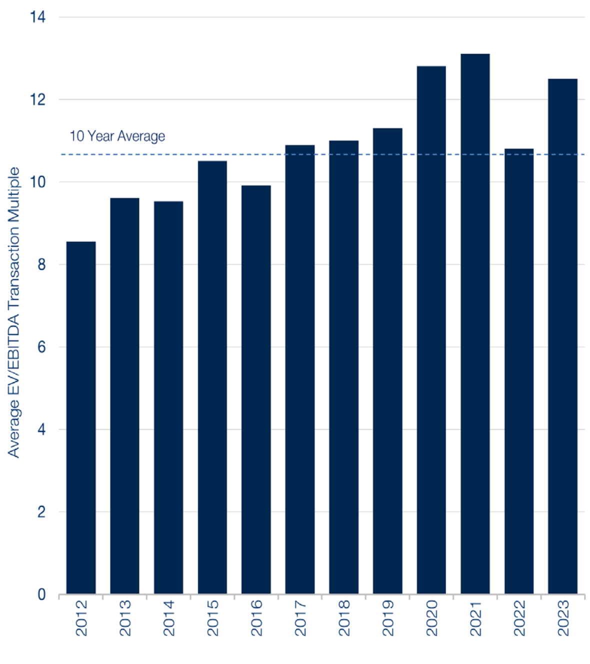
The outlook across intermediates, where Chinese expansion has largely destroyed profitability across most products, is not favourable in this part of the chemicals chain. Aside from pockets of stability mainly in the U.S., we would expect to see further M&A in the segment as companies continue to look to exit, further boosting the portfolio restructuring trend and the chemicals M&A market.

M&A MULTIPLES

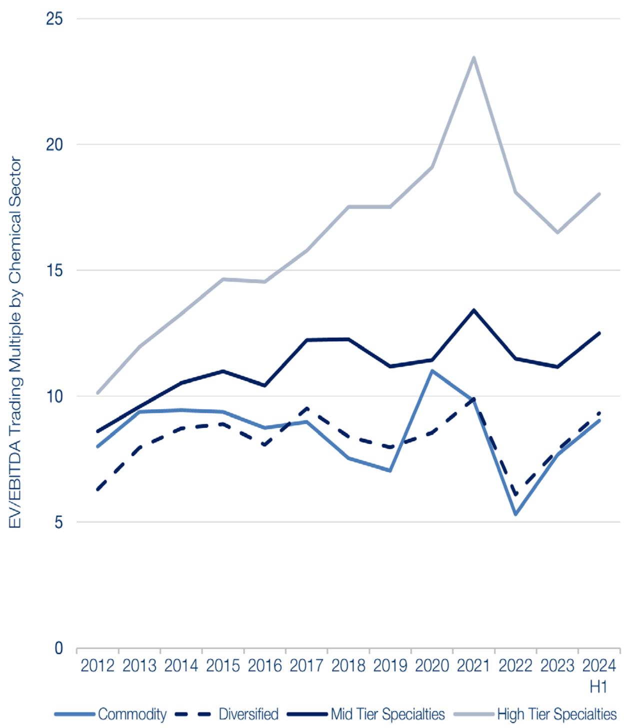
Despite some downward pressure from lower value chemicals business being brought to market, overall transaction multiples have risen across the chemicals segments in 2023. The first months of 2024 also show transaction multiples remaining at approximately 2023 levels, but there is insufficient data for this to be meaningful at this stage. Figure 4 shows the average chemicals transaction multiple and the strength of 2023.

FIGURE 4: CHEMICAL COMPANY TRANSACTION MULTIPLES



Piper Sandler internal analysis. Disclosed Transactions > c.$100m

FIGURE 5: CHEMICAL COMPANY TRADING MULTIPLES BY SEGMENT



Piper Sandler and Capiq analysis

Many of the relatively limited number of transactions were in the more performance and high tier specialty chemical areas (e.g. Lucas Meyer) and this bolstered the overall transaction multiples.

Trading EBITDA multiples across chemicals have also shown substantial increases. As shown in Figure 5, 2024 Q1 trading multiples for public chemical companies have rebounded from 2023 lows across all chemical sectors including commodity chemicals. Much of this rise has reflected the increasing stock markets but also stronger profits reported by many chemicals companies across the board in the first quarter of the year. Of course, even companies where profits have remained subdued have benefitted from higher stock markets and consequently strengthened multiples relative to lowly profits.

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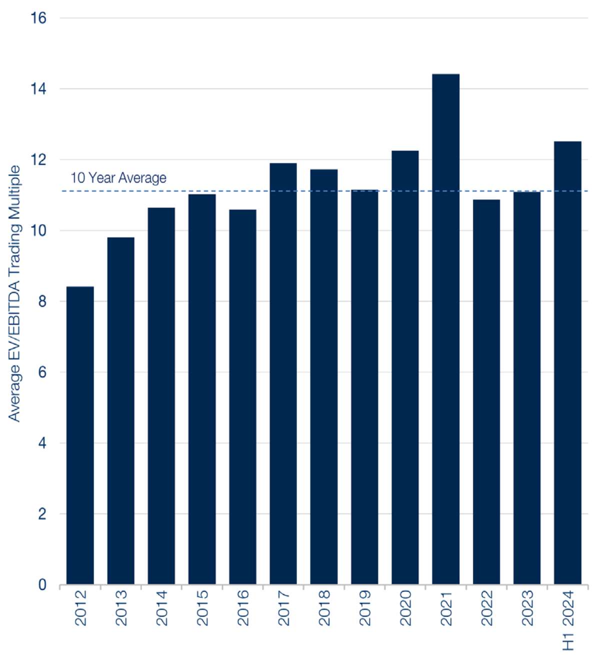
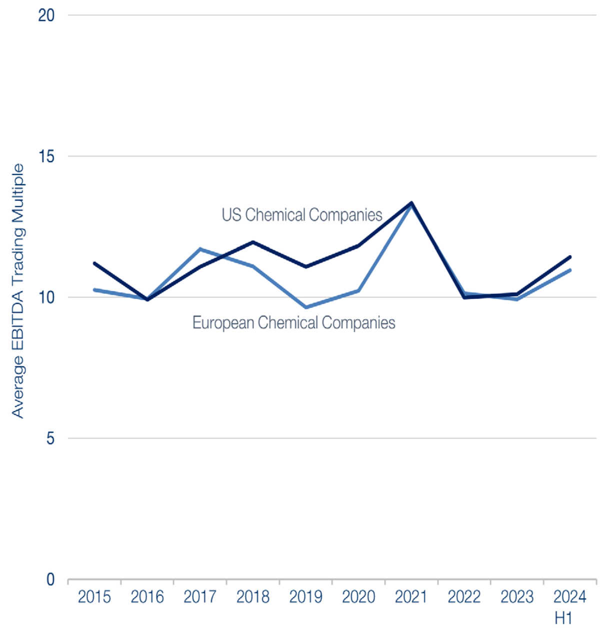
FIGURE 6: CHEMICAL COMPANY TRADING MULTIPLES



Piper Sandler and Capiq analysis

FIGURE 7: CHEMICAL COMPANIES TRADING MULTIPLES N. AMERICA AND EUROPE



Piper Sandler and Capiq analysis. Based on US and European chemical companies

Overall trading multiples are now above average historic levels but are not expected to change significantly in 2024-25 (Figure 6), as increasing company profits could actually lower multiples in commodity and diversified areas, thereby balancing any increase in the specialty area.

Interestingly, trading multiples in both Europe and U.S. remain in mostly lockstep. There has been a belief that trading multiples in the U.S. markets for chemical companies are significantly higher, but as shown in our previous analysis, and the updated chart in Figure 7, this is simply not supported by the data. So called "common knowledge" is rarely so simplistic. Naturally, U.S. public markets have more liquidity than local European equivalents and are more receptive to chemical company IPOs (although even in the U.S. the chemical sector is not traditionally an area investors favour). This may be one of the reasons to believe the U.S. markets value chemical companies more highly and there are clearly also times when the U.S. market was more favourable (between 2019-2020). A more detailed analysis shows that the real discrepancy is between U.S. and European diversified companies where European majors trade at c. 1-2x EV/EBITDA levels lower than U.S. counterparts (Figure 8).

FIGURE 8: DIVERSIFIED CHEMICAL COMPANY MULTIPLES N.AMERICA AND EUROPE

Piper Sandler and Capiq analysis. Based on US and European chemical companies

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On average over the last 10 years, European diversifieds trade at an astonishing almost 20% discount. Several reasons underpin this underperformance, including lower energy costs in the US and, more recently, a better GDP outlook.

However, in our view one of the key differences is that many of the European diversified companies still have broader and more unwieldy portfolios. These businesses have lower growth or are more cyclical, resulting in a less favourable outlook from analysts and investors. Many U.S. companies have trimmed portfolios or split the business to focus more directly on particular areas of strength. European companies across the continent still have less focused businesses which, when combined with a higher cost base and lower local demand, is easy to see why they are valued differently to U.S. peers.

Companies that have restructured portfolios such as DSM or more focused businesses such as Croda, have generally benefitted from higher valuations. The Solvay/Syensqo recent split will be followed closely to see whether management can drive the focus and returns that will lead to a change in valuation for both companies. If successful, it could prove to be pivotal for European diversified chemical companies.

OUTLOOK

The second half of 2024 is not expected to show a dramatic pick-up in M&A activity but there is undoubtedly a build-up of businesses being prepared for divestment that will come to market after September. This combined with current deal processes in market will continue the increased deal momentum already seen this year. If, as expected, the interest lowering cycle begins in earnest in Q3 or more likely Q4 of this year, then 2025 is expected to have much greater deal flow especially for larger chemicals deals. With European chemical majors moving into restructuring mode, and Asian and U.S. companies looking to solidify and expand their positions in growth areas, several sectors such as surfactants, composites and broadly defined coatings-related chemicals are forecast to be very active in 2025 and beyond.

Global Chemicals M&A Conference

The Piper Sandler Chemicals team will be hosting its eighth annual Global Chemicals for senior chemical executives and M&A professionals. The event is strictly by invitation only.
This year's conference will feature some of the most highly regarded and influential chemical company industry leaders.

CONFIRMED SPEAKERS | New York, November 12, 2024

Dow Jim Fitterling Chairman & CEO	iff Erik Fyrwald CEO	element solutions Ben Gliklich President & CEO	SYENSQO Ilham Kadri CEO
ONE ROCK CAPITAL PARTNERS Tony Lee Managing Partner	solenis John Panichella CEO	Cinven Pontus Pettersson Partner	

2024 TRANSACTIONS | PIPER SANDLER CHEMICALS

JULY 2024
US Silica
is being acquired by
APOLLO
Financial Advisor

JUNE 2024
Arsenal Capital Partners
has sold
RG Dispersants
to
Arclin
to a portfolio company of
TJC
Financial Advisor

JUNE 2024
GOLDEN GATE CAPITAL
has sold
ActiveMinerals International, LLC
to
HUBER
Financial Advisor

APRIL 2024
SK CAPITAL
has sold
FOREMARK Performance Chemicals
to
CC INDUSTRIES
Financial Advisor

APRIL 2024
Henkel
has acquired
SEALFORLIFE Industries
from
Arsenal Capital Partners
Financial Advisor

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