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September 2023

Chemicals M&A Market Update

Highlights

- Profits of mid and high tier specialties chemicals remain strong and above 2022 H2. However, commodity and diversified companies see steep profit falls in H1 & Q2 2023
- European diversified companies trading multiples at significant discount to U.S. peers as concerns for the European economy impact valuations
- Piper Sandler Chemicals M&A Conference in Dusseldorf, October 12, 2023

Chemicals M&A Market Update

CHEMICAL COMPANY PROFITS UPDATE

Since our recent newsletter, a slew of companies have announced half year results with accompanying views of how the market and broader chemicals industry is performing in the current environment. Some companies have even ventured to give an outlook, but in general, forecasts have been limited to a few broader or vague forward-looking statements. Mostly there has been a continuous "let's wait and see what happens" message from senior executives.

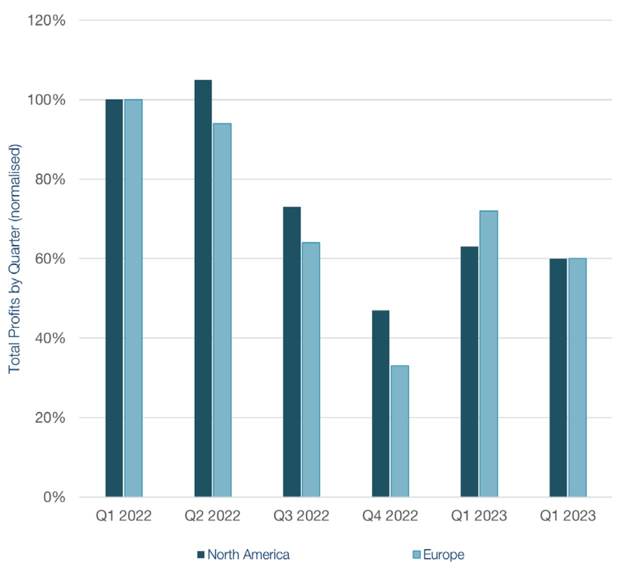
So, what have the recent company results delivered in terms of how companies are performing and the outlook for chemicals M&A?

Certainly, the larger diversified businesses have suffered as expected in Q2 2023 with the likes of Evonik, Arkema, BASF, Lanxess, Celanese and Eastman all announcing EBITDA declines of up to c. 40% or more on a year-on-year basis. Solvay is a bit of an outlier in producing robust H2 results.

The indication from these larger companies is that destocking has largely played out in the fist half of the year, but of more concern is the noted volume decline across multiple end markets, especially construction. As shown in **Figure 1**, overall Q2 profits in the chemical industry in Europe and North America have come in below Q1 with signals from companies that these levels are not expected to improve in the near future. The previous advantage enjoyed by U.S. companies appears to have evaporated, with both Europe and North American profits now at c. 60% of Q2 2022.

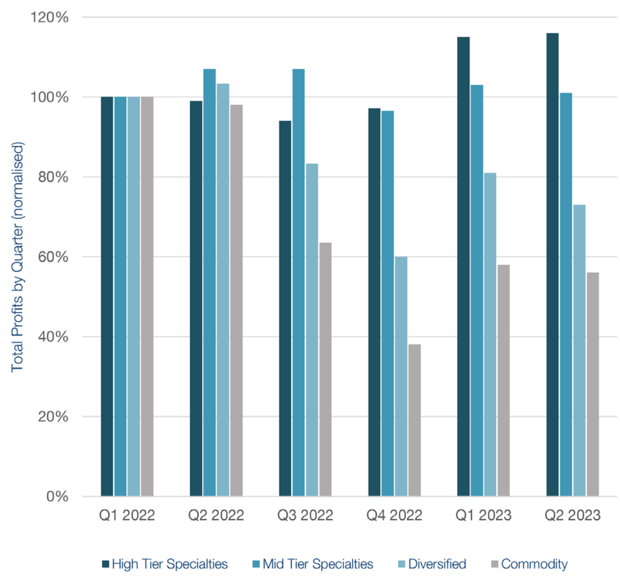
However, profit declines are centered on the more diversified and commodity areas as the combination of more cyclical end markets and energy prices weigh more heavily on these product and business sectors. As **Figure 2** shows, the specialty segments continue to perform well. High end specialty chemical companies have returned increasing profit in Q2 2023 and even mid tier specialities have returned overall stable profits.

FIGURE 1: CHEMICAL COMPANY PROFITS IN NORTH AMERICA & EUROPE BY QUARTER 2022-23



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

FIGURE 2: CHEMICAL COMPANY PROFITS BY SEGMENT BY QUARTER 2022-23



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

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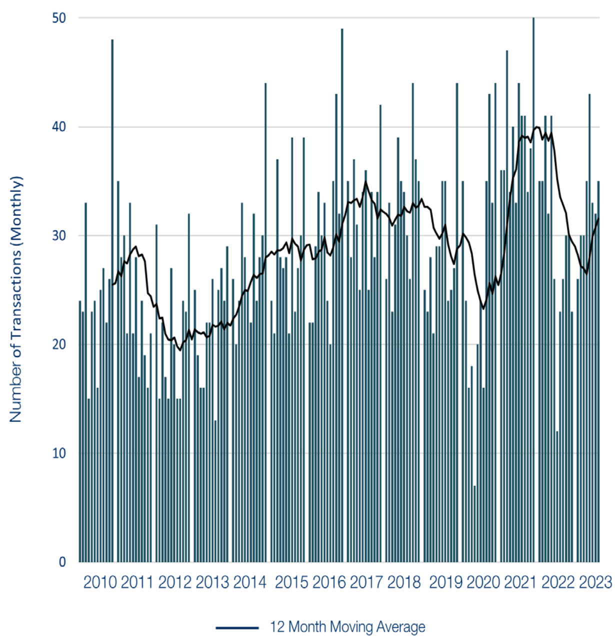
Conflicting impacts on economies globally has made the outlook somewhat unclear; although, the consensus remains that Europe will underperform the U.S. Recent low PMI (purchasing manager index) in Europe, especially in manufacturing and sluggish Chinese growth, are signs that Europe will be under more pressure, particularly if energy prices rise more in the winter. Germany is expected to register flat growth at best, with a weakening outlook for 2023. However, there is a general view that volume declines in Q3 and Q4 will not change much from Q2 and H2 2023 and will be broadly flat in volume terms. Therefore, the current outlook is a flat H2 2023, remaining a relatively low level with a gradual pick-up in 2024 as interest rates plateau or decline in response to lower inflation.

CHEMICALS M&A

Chemicals M&A has generally slowly started to pick-up, albeit from a low level. Naturally, investment banks are keen to demonstrate signs of recovery, so there is little surprise in the last sentence, but it is encouraging, both from our own business and market intelligence, that more mandates and deals are being signed. **Figure 3** shows the increase in total number of deals in the last months, with transactions such as *DuPont Delrin, FIS* and *Chase Corp* demonstrating the increased activity.

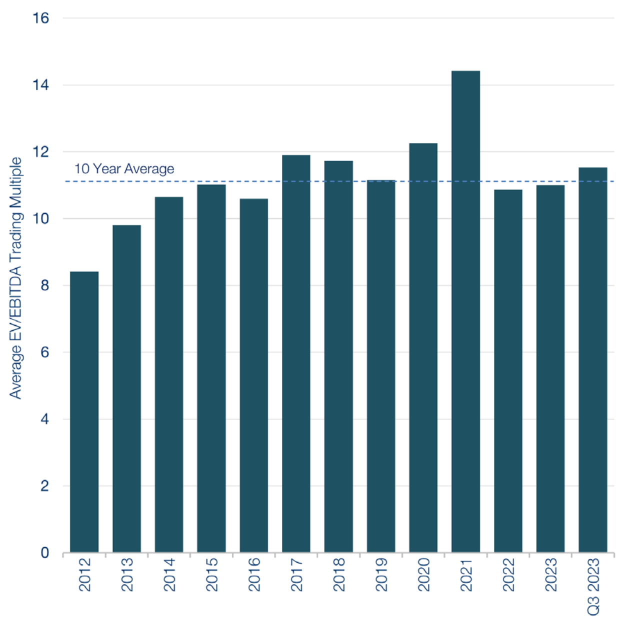
Valuations have risen slightly in the last 2 – 3 months. This has primarily been due to lower EBITDA across the commodity, intermediates and diversified segments. There has been a market catch up as share price and profits are more closely aligned with the most updated company financials. As shown in **Figure 4,** trading multiples remain at their long-term average of c. 11x EBITDA. By sector, specialities multiples have remained constant over the last year and the big changes have been in the commodity and diversified areas which have risen recently due to declining EBITDA, as noted above. (**Figure 5**).

FIGURE 3: MONTHLY CHEMICALS M&A VOLUMES



Piper Sandler and Capiq analysis. Deals above $10m

FIGURE 4: CHEMICAL COMPANY TRADING MULTIPLES



Piper Sandler and Capiq analysis

Chemicals M&A Market Update

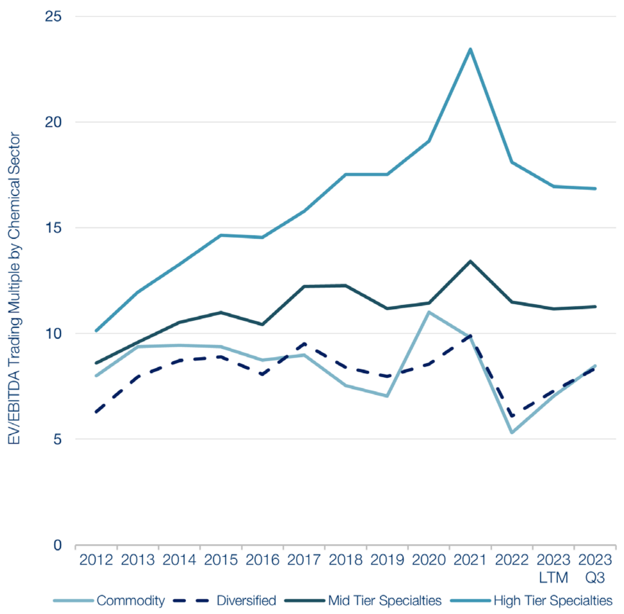
We do not believe there will be significant changes across average trading multiples in the near to mid term.

A key valuation difference that has emerged is the lower average multiple of European diversified companies compared to U.S. peers. Previously we have shown that, on average, over all chemicals, European and U.S. chemical companies have similar trading multiples. However, now U.S. diversified chemical companies trade at a substantially higher valuation as shown in **Figure 6**. Indeed, European diversified companies such as Evonik, Lanxess, Solvay and others have an average multiple close to 7x EBITDA whereas similar U.S. companies trade at close to 10x EBITDA. We believe this reflects the uncertainty surrounding the European chemical industry. Specifically European energy costs, growth dynamic and also competitiveness is being highlighted. With the U.S. economy forecast to have "soft landing," this differential could increase further in the short term. This could leave European chemical companies at a disadvantage and as shown by the recent ADNOC-Covestro or Clariant-Standard Latitude Master situations, potentially also acquisition targets.

OUTLOOK

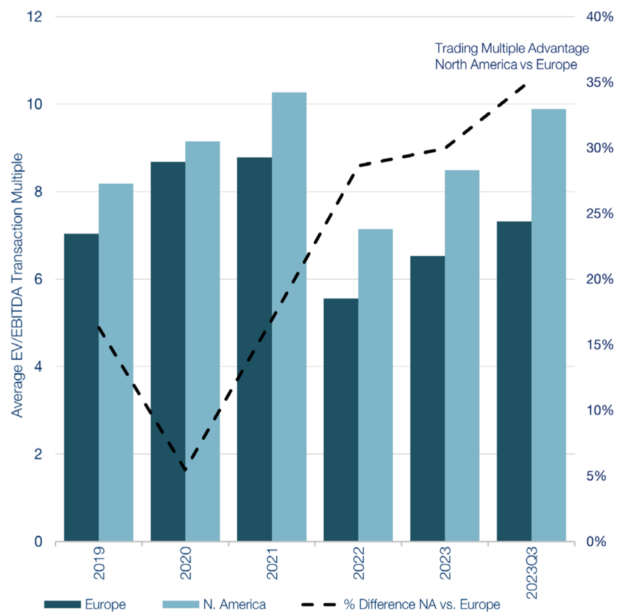
Despite the raft of recent profit declines across many chemical companies, the outlook remains one of cautious anticipation of levelling-off of costs, volumes, inflation and interest rates. The better economic transparency in the next months will likely raise confidence with a corresponding increase in outlook for chemicals M&A in 2024.

FIGURE 5: CHEMICAL COMPANY TRADING MULTIPLES BY SEGMENT



Piper Sandler and Capiq analysis

FIGURE 6: DIVERSIFIED CHEMICAL COMPANIES TRADING MULTIPLES NORTH AMERICA AND EUROPE



Piper Sandler and Capiq analysis

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