



theValenceGroup

DÜSSELDORF
13 November 2019

Chemicals M&A Conference

The 5th Valence Group Chemicals M&A Conference was held this year at the Intercontinental Hotel, Düsseldorf on November 13th

Key Conference Themes

- Increasingly challenging anti-trust regulatory environment
- Double-digit multiples continue to prevail in chemicals acquisitions
- Acquirers focused on long-term strategies, despite short-term macro noise
- Plenty of room for more consolidation in fragmented chemicals sector
- Low cost of capital will remain a key supporting factor
- M&A transaction volumes remain high
- Asian buyers becoming increasingly active



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Regulators Get Tougher

Amidst the growth in takeovers, deals are facing increasing scrutiny from anti-trust regulators. There are now 147 anti-trust enforcement agencies worldwide compared to five in 1990 and, at the same time, regulators are taking longer to approve deals.

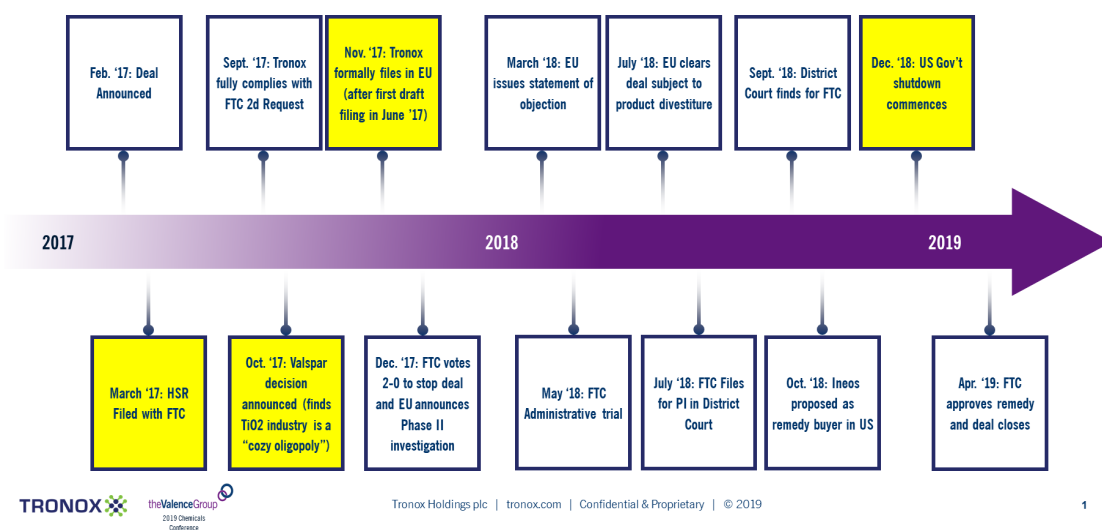
Jeffrey Neuman (Senior Vice President, General Counsel, Tronox) related the difficulties his company, the titanium dioxide (TiO₂) pigment producer Tronox, had in gaining the regulators' approval for its takeover of Cristal of Saudi Arabia creating the world's second largest TiO₂ producer. Negotiations with the regulators took over two years because, Mr Neuman claimed, of a coolness in the US Federal Trade Commission and the EU's European Commission, towards consolidation initiatives and suspicion in the US that the TiO₂ business was

a 'cosy oligopoly'. Regulators seem to becoming hostile to consolidation generally and 'bigness', Mr Neuman said. Also, they are getting fussier about remedy solutions through the sale of assets to third parties to make a deal anti-trust compliant. What matters is not the price offered by a prospective buyer for a business or plant in a remedy deal but the commitment of the purchaser. "Regulators have seen a lot of remedies fail so they want to be sure they will work," explained Mr Neuman.

As the number of regulatory agencies has increased across the world, the more likely they are to work together in investigating international takeovers. "They coordinate their examination of deals," said Mr Neuman. The regulators and companies in a deal may have a different time perspective. It's the longer-term outlook which tends to predominate among M&A players in chemicals, according to **Peter Hall**, a Valence Partner.

Figure 1: Timeline from Tronox Presentation

Timeline: How a Deal Can Drag on for 2+ Years



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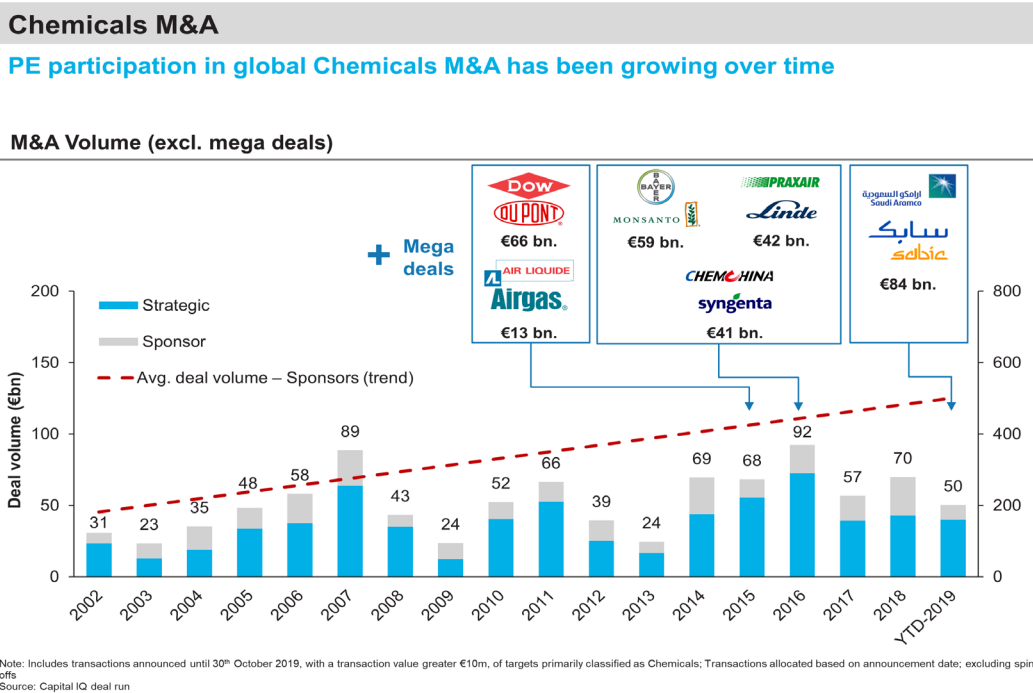
Private Equity Dominating Share of Acquisitions

Higher multiples have not deterred private equity companies from increasing their share of chemicals M&A with average deal value more than doubling since the early 2000s, **Ronald Ayles**, Managing Partner, Advent International, told the meeting. Since his company entered the sector 20 years ago, investment by private equity has risen by an average 10 percent CAGR. Private equity now had a share of the chemicals M&A market of around 25-30 percent. His company's strategy with takeovers has been to focus on building up the strength of their core competences, especially in specialities. Specialties average EBITDA trading multiple was 6.3 points higher in 2017 than in 2000 whereas with intermediates/commodities it was only 1.6 points higher. In the competition

for acquisitions, Mr Ayles said that private equity firms have the advantage over public companies of being able to react more quickly to deal opportunities, offer flexible transaction structures, present no anti-trust risks to sellers while being able to adapt a long-term strategy on the path to an exit.



Figure 2: Deal Volumes from Advent Presentation



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But not all private equity strategies entail making exits from acquired businesses. **Barry Siadat** (Co-Founder and Managing Director) explained the success of SK Capital. Now with annual sales of \$9 billion and operations in 24 countries, it is focused entirely on chemicals, materials and pharmaceuticals with the aim of long-term business building through “transformational” growth based on partnerships with management and, if necessary, sellers.

The basic strategy of SK is to understand businesses they invest in and identify better ways of running them. “We want to make money in both the good and bad times and not be dependent on cycles,” Mr Siadat said.

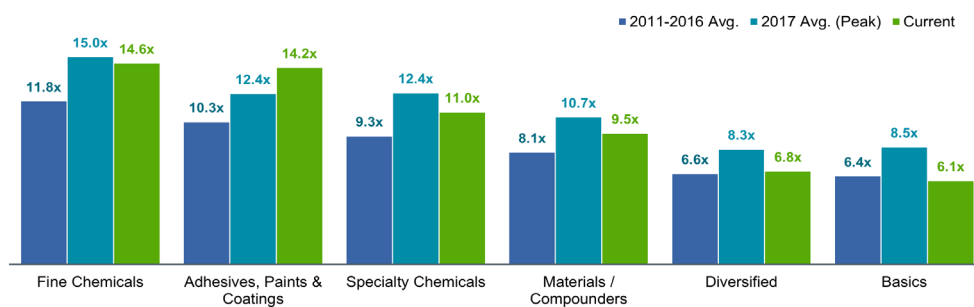


Figure 3: Valuation Levels from SK Presentation

Chemicals Valuation Trends

Public Company Valuation Trends

Public company valuations are generally trading off peak multiples seen in 2017, however tend to remain well above the 2011 to 2016 average for most chemicals sectors



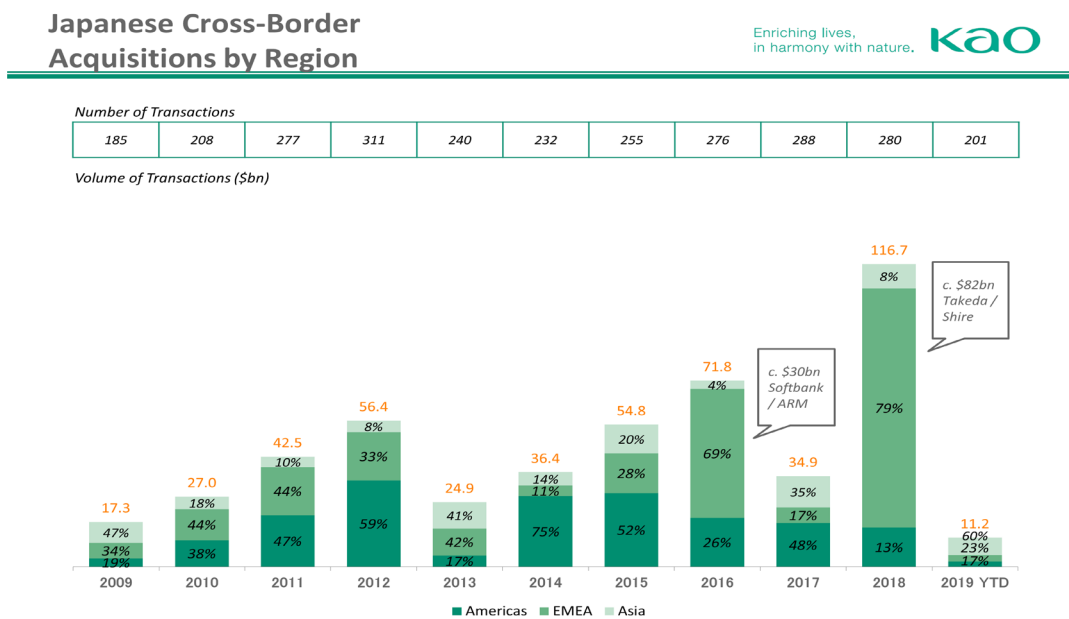
Source: CapitalIQ and company filings as of 9/30/2019

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Different national and corporate structures still influence the way takeovers are conducted and the time they take. **Ryuji Tezuka**, Senior Director and Head of Corporate Development at Japan's Kao Corporation, described the system among Japanese corporations for middle management to decide initially on a takeover target and then to build a broader company consensus in support of it. The acquiring company even tries to build a good relationship with managers in the takeover target before negotiations start. The disadvantage of this approach is that it takes time but on the other hand eases the integration of the acquired business with the purchasing company. "Sometimes it can be five years before a Japanese company starts talking seriously with the company being taken over," Mr Tezuka explained. "We are now trying to speed up the process so we catch up with the takeover processes of competitors in the international M&A market."



Figure 4: Acquisitions by Japanese Companies from Kao Presentation



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Lucian Boldea, Executive Vice President, Additives & Functional Products and Chemical Intermediates, Eastman, related how his company had become focused on specialities and materials with the help of acquisitions.

Since 2004 it had divested businesses with \$3.5 billion in sales and EBITDA margins below 10 percent and made acquisitions with total of \$4.3 billion sales and 25 percent EBITDA margins. He emphasised the importance of culture in successful takeovers.

The takeover eight years ago of Solutia necessitated a big drive to improve customer relations, but this was helped by strong, shared cultural values. Then five years ago the \$2.8 billion acquisition of Taminco, a Belgian specialities company with niche markets in food, feed and agriculture, presented the challenge of integrating a company with a different culture but that was well managed with a low cost structure after private equity ownership. Eastman succeeded in retaining target senior management and further developing its top talent. Mr Boldea said his company applied “blood, sweat and tears” to deal with cultural matters after a takeover, particularly in assessing the capabilities of management teams.

Outlook for Chemicals M&A

Despite short-term macro noise and worries about the effects of trade wars, economic uncertainty and Brexit, the M&A market in the chemicals sector has been performing well with high multiples, as businesses are fundamentally carrying out strategic positioning with a longer-term view. The positive M&A environment has been supported by a number of factors, including structurally low cost of capital and low interest rates.

At the same time acquirers generally seem to be prepared to pay more, with over half of deals in the last 1-2 years having double digit multiples.

What is the outlook for M&A in chemicals? Speakers showed figures indicating that the chemicals sector, still fragmented in many market segments, has some way to go before reaching the consolidation levels of other industrial sectors.

According to Mr Ronald Ayles, the top 10 chemical companies still account for only 10-11% of total market sales, a proportion well below sectors like automobiles, pharmaceuticals, steel and airlines. Multiples will remain high after averaging 10.8x EV/EBITDA in 2018 and looking likely to repeat that figure this year.



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Increasing Focus on Sustainability

Sustainability is increasingly being discussed by investors in the chemicals space, according to a panel debate at the conference.

Investing in sustainability is good business because it ultimately reduces costs, increases margins and raises the M&A value of a company, speakers on the panel said.

Furthermore consumers and customers are now expecting companies, especially chemical producers, to invest in sustainability, particularly in the circular economy for the recycling and reuse of products and their chemicals content.

“With pressure already being applied on companies by consumers and customers on this issue,” said Harald Schwager, Evonik’s Deputy Chairman, “we can anticipate that investors will be turning up the heat on companies (to invest more in sustainability), and that will include institutional investors.”



It is becoming more expensive to continue operating plants which emit a lot of pollutants than to invest, sometimes through acquisitions, in technologies which recycle these pollutants. In addition, institutional investors will cease putting money into companies which do not comply with environmental standards, warned Barry Siadat, Co-Founder and Managing Director, SK Capital.

“We want to outperform our industry and this is a once-in-a-lifetime chance to do that,” said Lucian Boldea, Executive Vice President, Additives & Functional Products and Chemical Intermediates, Eastman.

It is investing in the development of its own technologies, like methanolysis technology for breaking down polyester-based waste products into their polymer building blocks for making new polyester-based polymers.

Eastman is looking for takeover targets among SMEs. “In the M&A area, it is the smaller companies which have these circular economy technologies,” Mr Boldea said.



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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.



has acquired the Performance Products and Solutions Division from



The Valence Group acted as Financial Advisor to SK Capital



a portfolio company of



has acquired



The Valence Group acted as Financial Advisor to CPS/Arsenal



has acquired



from



The Valence Group acted as Financial Advisor to Golden Gate



has acquired the Composites business and German BDO plant of




The Valence Group acted as Financial Advisor to INEOS Enterprises




has sold its Melamines & Paraform businesses to




The Valence Group acted as Financial Advisor to INEOS Enterprises



has sold



to



The Valence Group acted as Financial Advisor to Dunes Point Capital



CAPITAL PARTNERS L.L.C.

has sold



to



The Valence Group acted as Financial Advisor to Charlesbank



have acquired the Specialty Chemicals business of



since renamed



The Valence Group acted as Financial Advisor to Carlyle



a portfolio company of



has merged with the Paper and Water Chemicals business of



The Valence Group acted as Financial Advisor to Solenis




has acquired




a portfolio company of




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



has sold



to



The Valence Group acted as Financial Advisor to Itaúsa



a joint venture of



has sold



to



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®

has acquired

 **HOUGHTON**
from


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

SAFECEM 

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
INOYVN, their planned PVC JV, to

INTERNATIONAL CHEMICAL INVESTORS
GROUP

The Valence Group acted as
Financial Advisor to INEOS/Solvay



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



The Valence Group acted as Financial Advisor to DSM



has sold its Sodium Borohydride business to



a portfolio company of



The Valence Group acted as Financial Advisor to Dow



has sold



to



The Valence Group acted as Financial Advisor to CBPE Capital



(Zhangjiagang, China)

has been sold to



ChangYuan Group (Shenzen, China)

The Valence Group acted as Financial Advisor to HSC



has acquired



from




The Valence Group acted as Financial Advisor to Permira




has sold its Compounds business to



The Valence Group acted as Financial Advisor to Tessenderlo



has been sold to



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



has sold its Tinstabilizer business to



The Valence Group acted as Financial Advisor to Arkema

Arsenal | Capital Partners

and



have sold



to



The Valence Group acted as Financial Advisor to Arsenal

Arsenal | Capital Partners

a portfolio company of



has sold its Plastics business to




The Valence Group acted as Financial Advisor to Arsenal



has acquired ChemSolutions B.V. from




The Valence Group acted as Financial Advisor to Niacet




has been sold to

Arsenal | Capital Partners


The Valence Group acted as Financial Advisor to IGM Resins



has acquired



from



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



has sold its Building Block Chemicals Division to



The Valence Group acted as Financial Advisor to Cytec




has acquired




from

Arsenal | Capital Partners

The Valence Group acted as Financial Advisor to Eastman



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



The Valence Group acted as Financial Advisor to PolyOne



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