# theValenceGroup

# Chemicals M&A 2013 Review

## Highlights

- 2013 H2 proved to be the strongest chemicals M&A market for the last three years
- Valuations of public chemical companies in US/Europe reached a 15 year high
- Chemical M&A transaction multiples now at historic average of 8.7x
- 2014 expected to be the strongest year for chemicals M&A since 2007

Arsenal Capital Partners
has acquired
ADCO GLOBAL
from
AURORA CAPITAL GROUP
*The Valence Group acted as financial advisor to Arsenal Capital*

TESSENDERLO GROUP
*has sold its Compounds Business to*
MITSUBISHI CHEMICAL
*The Valence Group acted as financial advisor to Tessenderlo*

GOLDEN GATE CAPITAL
*has acquired*
ArrMaz Custom Chemicals, Inc
*from*
SNOW PHIPPS
Common Objectives. Uncommon Commitment.
*The Valence Group acted as financial advisor to Golden Gate Capital*

**IN THIS ISSUE**



**New York**
Tel: +1 212 847 7340

**London**
Tel: +44 (0) 207 291 4670

**www.ValenceGroup.com**

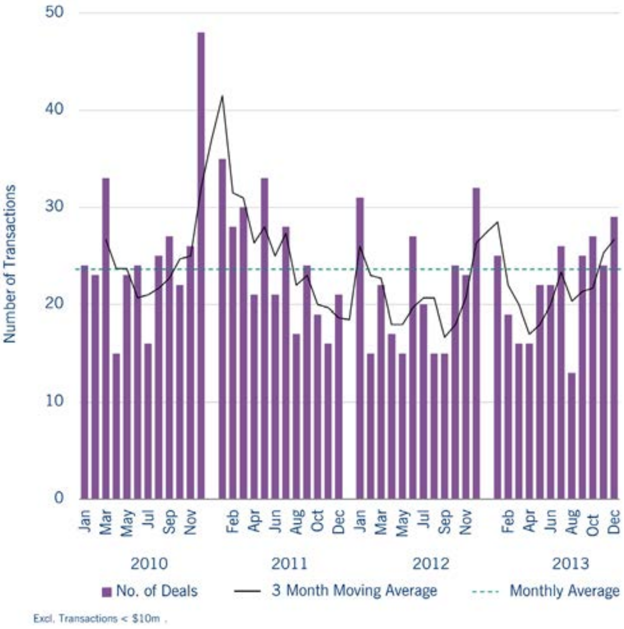
theValenceGroup

# Chemicals M&A 2013 Review

## Chemicals M&A Volume 2013 & 2014

The chemicals M&A market in 2014 could prove to be one of the strongest in the last 10 years. With activity markedly picking up in the 2nd half of 2013 the initial signs are that this will carry through to 2014. As shown in Figure 1, the last four months in particular have seen the number of the chemicals transactions reach levels not seen for almost three years. Since hitting a four year low in August 2013, the number of transactions has continued to increase through most of 2013 pointing to a bright 2014.

**Figure 1** Monthly Chemicals Transactions - Last Four Years




On a value basis, 2013 was also very much a tale of two halves with the 1st half of the year being relatively lacklustre by recent standards (although still robust on a more historical basis). As shown in Figure 2, the overall value of announced transactions remained similar to 2012 levels. However, almost 70% of value was in the 2nd half of the year, due partly to the number of deals announced and also because most of the larger transactions were in the latter months of 2013.

**Figure 2** Chemicals Transactions by Value

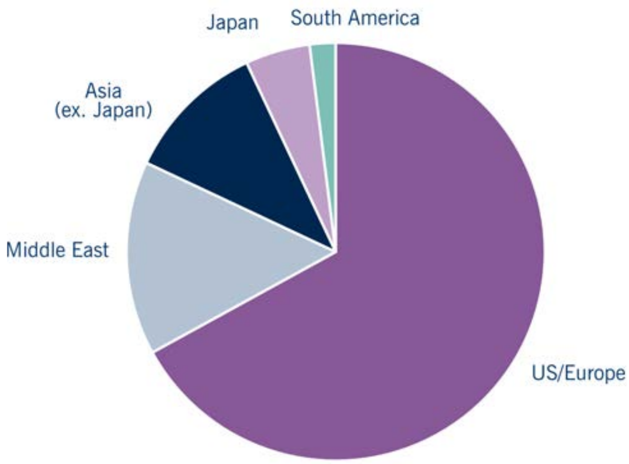

The Valence Group analysis and feedback from chemical company decision makers shows that four key drivers will fuel M&A demand in 2014:

- Finding growth: Most companies view accelerating growth as the main priority. Companies, especially in Europe, are still struggling in low growth environments and M&A will be used to boost both revenue growth and profitability
- Availability of capital: Many companies have significant funds available and need to find investment options beyond obvious share buybacks; debt also remains cheap and plentiful
- Portfolio re-alignment: Companies are still disposing of low growth businesses or non-core segments while moving further downstream into more protected or higher growth areas
- Activist investors: Already targeting several chemical companies (Valence Group Newsletter 6) and will continue to push executive boards to optimise portfolios

# Chemicals M&A 2013 Review

More broadly, the regional shift of production of upstream chemicals and intermediates from Europe to China, Middle East and even North America will fuel regional M&A. As seen from Figure 3, the split of regional M&A is broadly in line with the last few years, with the Middle East and Asia accounting for c. 35% of all global M&A. Oman Oil's acquisition of Oxea ($2.4bn) is representative of this shift in the chemical industry.

**Figure 3** Chemicals M&A by Region (Acquirer Origin)



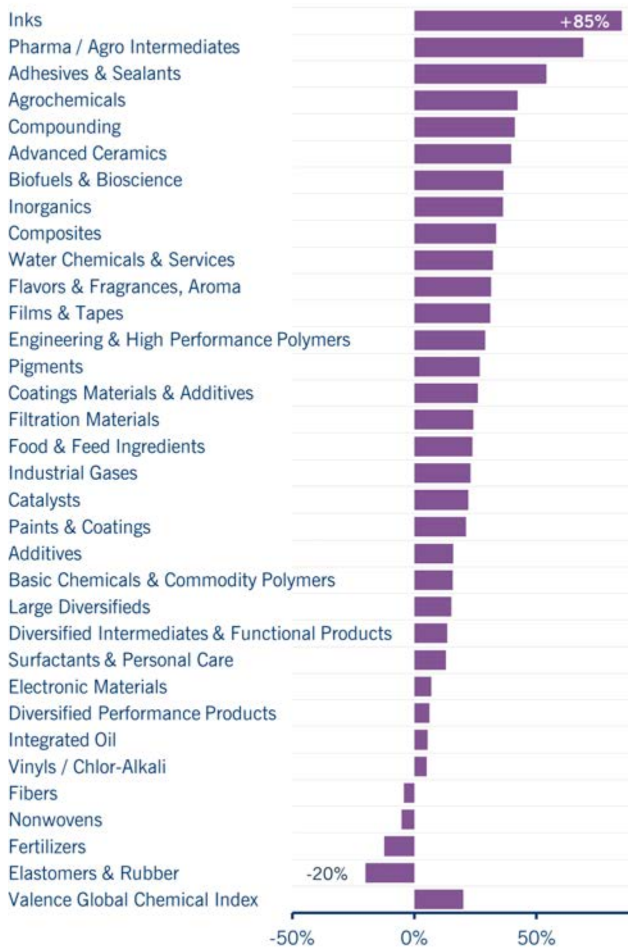

Private equity companies have also been active and with plentiful availability of debt will continue to invest in chemical companies. Additionally, with the low cost of debt, it is expected that private equity will remain highly competitive in 2014.

In conclusion, with positive signs of GDP growth, evidence of the momentum of H2 2013 continuing and so many factors underpinning chemicals M&A growth, 2014 is expected to be one of the strongest recent years for chemicals M&A.

## Public Company Valuations: 15 Year High

Global stock markets rose through much of 2013 and much of this was justified on the basis of renewed GDP growth in North America and signs of the bottom being reached in some parts of Europe. On the other hand, profitability and growth has not always fully matched market expectations leading to much debate whether the market was running ahead of itself and whether current valuations are sustainable.

**Figure 4** Valence Indices - 2013 Performance

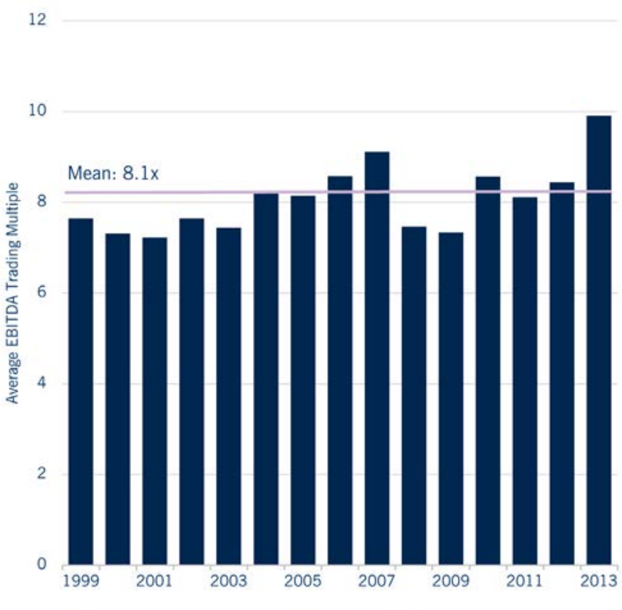


# Chemicals M&A 2013 Review

Chemical company stock prices also generally followed the market trends in 2013. Clearly this was not across all companies and sub-sectors (Figure 4) with areas such as Fertilizers and Elastomers & Rubbers actually dropping by up to 20% while others almost doubled in value (e.g. Inks and Compounding).

However, a Valence Group analysis across a broad range of US and European chemical companies shows trading (EBITDA) multiples where at the highest level for the last 15 years (Figure 5). At this stage in the cycle, EBITDA trading multiples are c. 10% higher than would be expected (c. 1x EBITDA turn higher). This does not change appreciably if Asian and Latin American companies are also included.

**Figure 5** **US & European Public Chemical Co. Trading Multiples**

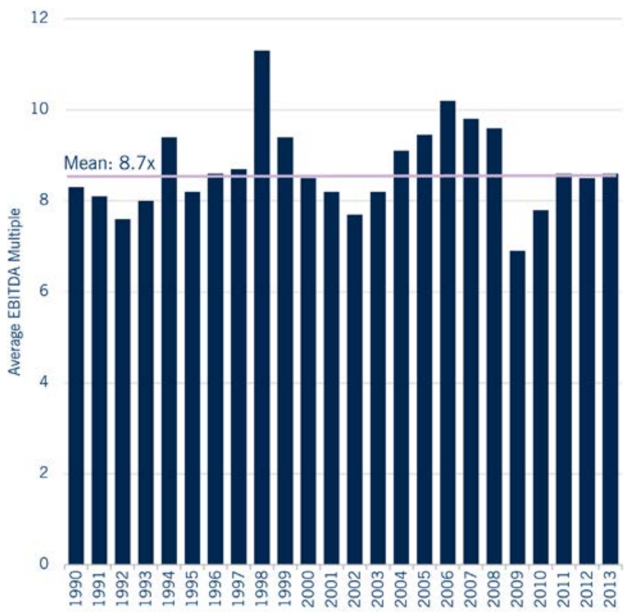



The Valence Group Analysis based on 59 European and North American chemical companies.

The market could see a correction in the next few months depending on reported profitability in the next one or two trading quarters. If company results fail to demonstrate increased profits, it is uncertain whether market sentiment will be sufficient to maintain the current trading multiples. Conversely, if as expected, profitability increases, chemical company share prices could remain at current levels or even trend higher. Obviously, interst rate factors could also weigh on public company valuations, although any increase is likely to be accompanied by accelerating GDP growth, muting any impact.

In contrast to public company valuations, average transaction multiples are broadly in line with the historical average at 8.7x EBITDA (Figure 6). The second half of 2013 was at higher level with some larger transactions such as Solvay-Chemlogics and Merck-AZ Electronic Materials above 10x, as well as some smaller transactions also above this level (e.g. Altana-Rockwood Clay Additives and Toray-Zoltek). We would therefore expect 2014 transaction multiples to be closer to 9x EBITDA based on the position in the cycle and momentum built up from H2 2013

**Figure 6** **Chemical M&A Average Transaction Multiples**




The Valence Group Analysis. Disclosed Transactions > c.$200m

# Chemicals M&A 2013 Review

A more granular analysis of multiple by type of transaction is shown in Figures 7 and 8. Both charts reveal that EBITDA transaction multiples have not changed significantly by type of deal over the last four years and even over a longer time period back to 2001. Notable is the increase in higher end "speciality" chemical type deals in 2013 as can be distinguished from the concentration of activity in Figure 8 (orange dots). This consolidation of the specialty chemical sector is likely to be one of the most marked trends in 2014 and the remainder of the decade.

**Figure 7 2013 Valuation Comparison**

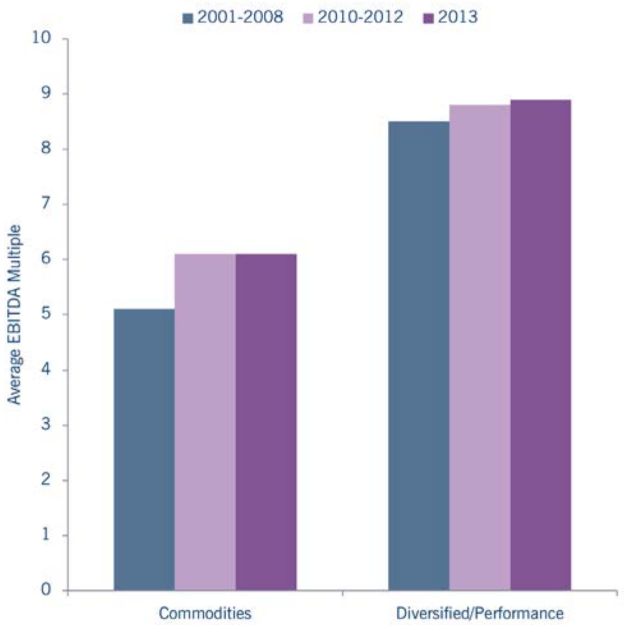
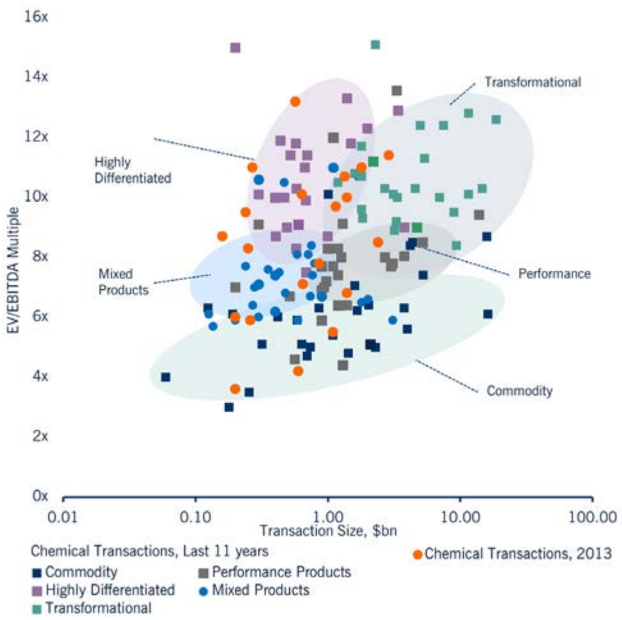



**Figure 8 Chemical Transactions by Type: 2013 Historical Comparison**




With confidence returning, multiple transactions in the pipeline and so many factors underpinning the chemical M&A market, 2014 could prove to be the strongest since 2007.

# Chemicals M&A 2013 Review

*The Valence Group, LLC, is a member of FINRA and SIPC.*

*This is a market commentary and is intended neither as investment advice nor recommendation for specific securities.*

*TVG Ltd, authorised and regulated by the Financial Services Authority (FRN: 505298.), has approved this as non independent research in connection with its distribution in the United Kingdom. This research is for our clients only. This document is not independent and should not be relied on as an impartial or objective assessment of its subject matter. Given the foregoing, this document is deemed to be a marketing communication and, as such, designed to promote the independence of investment research and TVG Ltd, is not subject to any prohibition on dealing ahead of dissemination of this document as it would be if it were independent investment research.*

© 2014 The Valence Group, LLC
© TVG Ltd
© Valence Investment Advisory (Shanghai) Co Ltd

theValenceGroup

# The Valence Group

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 company's offices are located in New York and London.

Niacet Corporation
*has announced the acquisition of ChemSolutions BV from*
Kemira
*The Valence Group acted as financial advisor to Niacet*

DSM ExxonMobil Chemical
*have reached agreement to sell*
DEXPLASTOMERS
DSM/EXXONMOBIL CHEMICAL JOINT VENTURE
*to*
BOREALIS
*The Valence Group acted as financial advisor to DSM and ExxonMobil*

HOUGHTON
Fluid Partnerships Making a World of Difference
*an AEA portfolio company has announced its sale to*
Gulf
*The Valence Group acted as financial advisor to Houghton*

IGM RESINS
*has been sold to*
Arsenal Capital Partners
*The Valence Group acted as financial advisor to IGM Resins*

ARKEMA
INNOVATIVE CHEMISTRY
*has sold its tin chemicals business to*
pmc
*The Valence Group acted as financial advisor to Arkema*

Arsenal Capital Partners
*and*
FOOSUNG
*have sold*
NOVOLYTE technologies
*to*
BASF
The Chemical Company
*The Valence Group acted as financial advisor to Arsenal Capital*

SOLUTIA
*has been sold to*
EASTMAN
*The Valence Group acted as independent advisor to the Board of Directors of Solutia*

KENNAMETAL
*has acquired*
Deloro Stellite
*from*
DUKE STREET
*The Valence Group acted as financial advisor to Kennametal*

TA Associates
*has sold*
Microban
antimicrobial product protection
*to*
barr
*The Valence Group acted as financial advisor to TA Associates*

PolyOne
*has acquired*
*from*
Audax Group
*The Valence Group acted as financial advisor to PolyOne and issued a Fairness Opinion to PolyOne's Board of Directors*

Bridgepoint
CABB
*has acquired*
KEMFINE
*from*
3i
*The Valence Group acted as financial advisor to CABB*

TESSENDERLO GROUP
*has sold its PVC and Chlor Alkali businesses to*
INEOS
Kerling
*The Valence Group acted as financial advisor to Tessenderlo*

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

CYTEC
*has sold its Building Block Chemicals Division to*
H.I.G. CAPITAL
*The Valence Group acted as financial advisor to Cytec*

DSM
*has sold its Citric Acid business (Citrique Belge) to*
ADCURAM GROUP
*The Valence Group acted as financial advisor to DSM*

EASTMAN
*has acquired*
GENOVIQUE SPECIALTIES
*from*
Arsenal Capital Partners
*The Valence Group acted as financial advisor to Eastman*