Chemical M&A Market Continues to Slide

Chemical industry M&A activity has continued to slow in early 2012, according to data from Young and Partners (New York). The total dollar volume of chemical M&A completed worldwide in the first quarter was only $6 billion, of which the largest deal was Apollo Management's $1.5-billion acquisition of Taminco. This compares to $17 billion in the fourth quarter of last year and $82 billion for all of 2011.

›› Deal activity has declined due to economic uncertainty. ‹‹

"The chemical M&A market is clearly past the peak, both in terms of dollar volumes and valuations, as greater uncertainty about the economic outlook and a more difficult high-yield financing market has restrained transactions," says Peter Young, president of Young & Partners (New York). "Although strategic buyers are under pressure to grow, they also are being cautious in an uncertain economic environment." Industry executives continue to express concern about conditions in Europe and Asia, Young says.

"It is hard to say that the M&A market is robust," he says. "Not even the Solutia deal valued at $4.7 billion getting done over the next couple of months will plug that gap in level of activity."

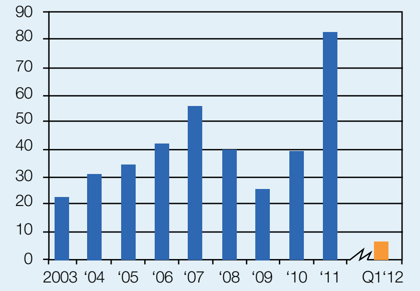
Deal activity began to slow down in the fourth quarter after a strong start in 2011. Young says that the only decent sized deal that has been announced since is Eastman Chemical's planned $4.7-billion acquisition of Solutia, which is expected to close mid-year.

Young adds that the number and dollar volume of deals announced but not closed, an indication activity in the deal pipeline, has gone down every quarter since second-quarter in 2011. "That number kept shrinking from $34 billion at the end of June 2011 to only $7.8 billion at the end of March 2012," Young says.

Young says that M&A has slowed but "I do not think that we will be at first-quarter levels for the rest of the year. There will be some pick-up if things in Europe do not deteriorate and high-yield debt availability stabilizes, but it could also go the other way," Young says. There are plenty of willing buyers and sellers, he adds. "Although private equity firms sold a record number of the chemical businesses in 2009 and 2010, they still own a large number of companies and will look for exit routes in the M&A market," Young adds. —ROBERT WESTERVELT

M&A Dips in Early 2012

(Value of disclosed deals in billions of dollars)



Source: Young & Partners (New York).

Univar Issues Debt for Dividend; Momentive Refinances

Univar is issuing $750 million in senior, unsecured bonds and a new $750 million term loan to fund a $1 billion debt refinancing and a $544 million dividend to the company's owners. Private equity firms Clayton, Dubelier and Rice (CD&R; New York) and CVC Capital Partners (New York) each hold a 42.5% stake in Univar.

Moody's Investors Service (New York) has rated the term loan 'B2' and the bonds 'B3.' Combined, the moves will increase Univar's debt by $725 million, but reduce the company's interest expense. The $1 billion in subordinated debt subject to the refinancing carries an interest rate of 12%. The new bonds are due in 2019 and the interest rate has not been disclosed.

Standard & Poor's (S&P; New York) has rated the new bonds 'B-.' "The ratings on Univar reflect its high leverage and very aggressive financial policies, but also our expectation that favorable business conditions and operating trends over the next couple of years will continue to support adequate cash flow generation, 'strong' liquidity, and a modestly improving financial profile," says S&P credit analyst Seamus Ryan.

Meanwhile, Momentive Performance Materials is planning to issue $450 million in new senior secured bonds to institutional investors. The debt will be used to repay $250 million worth of principal on the company's term loans. Momentive also intended to use the debt to redeem $130 million in high-interest debt due in 2014, however, the company nixed that plan due for unspecified reasons. The 2014 debt, which totals $200 million, carries an interest rate of 12.5%.

Seperately, Moody's has withdrawn ratings on Reichhold Industries after the company consummated a debt swap that Moody's has deemed a "distressed exchange." Reichhold exchanged 9% bonds due in 2014 for 9%-11% bonds due 2017, paying accrued interest on the 2014 bonds in kind, rather than cash, leading to the withdrawal of ratings, Moody's says.

Reichhold first announced the debt swap deal in February, when 70% of the affected bondholders agreed to the plan. In March, the deal was extended to cover remaining bondholders, of whom 99% agreed after two extensions.

—VINCENT VALK

Valspar's Earnings Increase

Valspar's second-quarter 2012 net earnings grew 36% year-on-year, to $76.5 million. Adjusted earnings were $111 million, increasing 32% and excluding restructuring charges and income taxes. The company's net sales grew 4% on-year, to $1.03 billion. Adjusted earnings of 64 cts/share were in line with analyst estimates, according to Thomson Reuters (New York). "We were pleased with our performance in the quarter," says Gary Hendrickson, president and CEO. "Our earnings growth was driven by new business in our industrial product lines, better price-to-cost balance, productivity improvements and benefits from last year's restructuring actions. Our volume trend improved sequentially in both our coatings and paint segments in the quarter."

Valspar rasied guidance for the full fiscal year ending October 26, 2012, to $3.20-$3.30, up from a January forecast of $2.92-$3.12/share, citing the expectation of further volume growth in 2012.

—LINDSAY FROST