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M&A **PETER YOUNG** YOUNG & PARTNERS

M&A market continues to fall

Bullish predictions for strong M&A activity in 2012 have been proven wrong thus far. What's holding back the market?

We have maintained since autumn 2011 that the global chemical mergers and acquisitions (M&A) market had already peaked and would continue to fall.

Recent evidence has borne this out, contrary to the bullish statements of others.

One investment banker went as far as to predict that the M&A market in 2012 would continue to be strong and improve on 2011.

Young & Partners believes that the chemical M&A market is clearly past the peak that occurred early last autumn – both in terms of dollar volumes and in valuations – as greater uncertainty about the economic outlook and a more difficult high yield financing market has restrained transactions.

Although strategic buyers are under pressure to grow, they also are being cautious in an uncertain economic environment.

During almost every conversation that we have had with chemical industry CEOs, they have mentioned their concerns about the health of the banks in Europe, the economic situation in Europe, and slowing growth in Asia.

Although total M&A deal volume was strong through the first three quarters of 2011, deal activity in terms of dollar volume began to slow down in the fourth quarter.

Rex Features

M&A activity is all tied up

Fewer large deals have been announced and the only decent-sized deal that has been announced in 2012 is US-based Eastman Chemical's planned acquisition of US-based chemical and materials company Solutia for $4.7bn (€3.7bn).

FEWER OPEN DEALS

Perhaps the most tangible evidence of the slowdown is in the number and dollar volume of deals announced but not closed – the best measure of the M&A pipeline.

This has fallen almost every quarter since the end of the second quarter of 2011, going from $34.0bn at the end of June 2011 to only $7.8bn at the end of March 2012.

Of course, closed deals are also important as an indicator.

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Total dollar volume of chemical M&A worldwide in the first quarter was only $6bn, of which the largest deal was the $1.5bn acquisition of Belgium-based amines producer Taminco by US private equity firm Apollo Management, where we were the financial advisor to Apollo.

This compares to $17bn in closed deals in the fourth quarter of 2011 and a record $82bn for all of 2011. With the first quarter of 2012 at only 7.3% of last year's full year dollar volume and the backlog as of the end of the first quarter at only 9.5% of last year's dollar volume, there is no question that 2012 will fall far short.

How far below will be determined by what happens in Europe and in China and whether the availability of high-yield debt stabilizes.

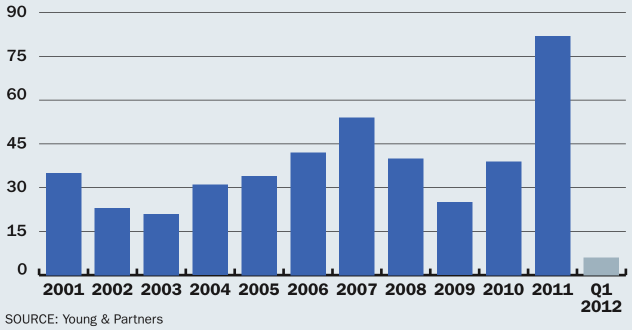
LOW CONFIDENCE

With the surging political rebellion in Europe against austerity measures that has resulted in changes in leadership, the serious economic conditions in Greece and Spain, the ongoing recession in most of the rest of Europe, and the slowdown in growth in China, it is hard to see a sufficient surge in confidence and availability of high-yield financing that will allow 2012 chemical M&A dollar volume to equal 2011.

This would require over $78bn of deals to close in the last three quarters of 2012 – an amount equal to 10 times the most recent backlog and 13 times the dollar volume in the first quarter. ■

ACQUISITIONS OF WORLDWIDE CHEMICAL COMPANIES SLOW

Dollar volume of disclosed deals in $bn, equity value



SOURCE: Young & Partners

TOP 10 CHEMICAL DEALS COMPLETED IN Q1 2012

Buyer	Target	Equity Value
Apollo Global Management	Taminco	$1,500m
Euro Chem	BASF Belgium fertilizer assets	$932m
Yara International	Burrup Holdings	$894m
Toray Industries	Tonen Specialty Separator Godo	$695m
H.B. Fuller	Forbo adhesives operations	$395m
Arkema	Suzhou HiPro Polymers (Bain Capital)	$365m
Huntsman Gay Global Capital	Citadel Plastics Holdings (Wind Point)	$320m
Clessidra Capital Partners II	Euticals (Mandarin Capital)	$219m
Keyera	Alberta Envirofuels	$194m
PPG Industries	Dyrup (Monberg & Thorsen)	$158m

SOURCE: Young & Partners

Peter Young is president and managing director of Young & Partners, an international investment banking firm headquartered in New York.