

Banker: Chemicals M&A market steady in third quarter

The M&A market in the chemicals sector was steady during the third quarter, with \$9 billion in deals above \$25 million completed, according to data provided by Young & Partners (Y&P; New York), an investment bank. This total is up 22% from \$7 billion in deals completed during the second quarter. For the first nine months of the year, \$31 billion in M&A deals were completed, the equivalent figure to last year, according to Y&P.

M&A volume has been up slightly in terms of numbers, however. Some 70 deals greater than \$25 million were completed during the first nine months of 2015, up 9.4% year-on-year (YOY), from 64 deals during the same period in 2014. The number of commodity chemical transactions has declined, while the number of specialties transactions has increased, according to Peter Young, president of Y&P.

Asia and the rest of the world account for 54% of deals completed, a new record. The United States and Europe each accounted for 23% of completed deals. Private equity buyers were involved in 13% of transactions, generally below the historical norm, Y&P says.

Young says, "We expect dollar volume for all of 2015 to be healthy and exceed last year's total, but by \$5-10 billion, well off the \$19-billion increase from 2013 to 2014." He explains, "The number of deals completed in 2015 will also be very healthy but will not reach the record 108 deals completed in 2014. Next year will likely be flat compared to this year."

M&A valuations have been high and will likely remain high, but the cyclical peak may have passed. "Through the first three quarters of 2015, valuations overall continued to be high, but the market is splintering," Young says. "[Valuations are] still high in specialty chemicals but well below last year's valuations for commodity chemicals."

"Global uncertainty will continue to hold down the number of very large deals except

in a few instances where there is a strategic imperative to reposition the company," Young says. Young cites Merck KGaA's (Darmstadt, Germany) \$17-billion acquisition of Sigma-Aldrich, which closed in November, as an example of a large deal undertaken because of a repositioning. Y&P's figures were compiled prior to the announcement of the Dow Chemical-DuPont merger on 11 December.

Meanwhile, the industry remains in mostly sound shape, despite some volatility and pockets of weakness in areas such as oilfield chemicals, Young notes. "Cash flows continue to be strong overall," he adds.

However, the volatility in the stock market—while it has not impacted earnings and cash flows—has affected M&A and public-market valuations, according to Young. Chemical stocks have underperformed benchmark indices so far this year. Still, stock valuations are high both for the industry and overall. The trailing price-to-earnings multiple for the S&P 500 stood at 20 times at the end of September, Young notes. The S&P 500 has increase since then, as has the CW75, though both indices remain below peak.

Some \$2.7 billion in chemicals equity issuance was completed in the first three quarters of 2015, a result of seven offerings. Despite high stock valuations, initial public offerings remain rare, Young says.

Debt markets, meanwhile, "for the most part have been healthy with the exception of sporadic choppiness in high yield due to concerns about rising interest rates, the health of the global economy, and the potential for rising defaults," Young says. Global nonbank debt financing in chemicals totaled \$23.4 billion during the first three quarters of 2015, up 4.9% YOY, from \$22.3 billion, during the same period in 2014. Investment-grade debt issuance in chemicals declined 16% YOY, to \$16 billion, while high-yield issuance more than doubled, to \$7.1 billion.

Despite the strong numbers earlier this year, high-yield debt markets have entered another period of choppiness. "The high-yield market has become more challenging again in the fourth quarter with concerns about defaults in the shale gas and oil sector, a significant percentage of the high-yield markets," Young says.

—ROBERT WESTERVELT AND VINCENT VALK



YOUNG: M&A valuations are 'splintering.'

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