

## Banker: Value of closed M&A soars in 2017 due to megadeals

by Vincent Valk

The value of chemicals M&A transactions that closed in 2017 soared to \$154.6 billion in deals valued over \$25 million, from \$42.0 billion in 2016, according to data from investment bank Young & Partners (Y&P; New York). However, the elevated figure was due to three uniquely massive transactions that were completed last year: Dow-DuPont, ChemChina-Syngenta, and Sherwin Williams-Valspar. Excluding these three deals, closed deal value totaled \$41.0 billion last year, down 2.4% from 2016, says Peter Young, president of Y&P.

In terms of the number of transactions, the year on year (YOY) trend looks similar to trend in deal value when excluding the three megadeals, with a small decline. A total of 89 chemical M&A transactions valued over \$25 million were completed in 2017, according to Young. This compares with 95 deals over \$25 million completed in 2016, a decline of 6.3%.

The trend for 2018 will, likewise, be driven by megadeals. There were 77 transactions valued over \$25 million that had been announced but not closed as of 31 December 2017, and their value totaled \$144.1 billion. "Most of this volume is driven by Bayer-Monsanto, Praxair-Linde, and PotashCorp-Agrium," Young says. The PotashCorp-Agrium merger closed on 2 January, forming a new company called Nutrien.

In terms of geography, Asia predominates, with 47.2% of deals completed worldwide in 2017 involving Asia. "This Asian dominance has been true for the last few years," Young says.

Private equity firms, meanwhile, are mostly remaining on the sidelines. Only 9% of chemical acquisitions in 2017 had private equity buyers, accounting for just 3% of dollar value, according to Young. This situation exists despite private equity firms that have cash to invest and often see chemical companies as good investments. High EBITDA multiples have deterred private equity buyers in chemicals, especially in the non-cyclical specialties businesses that private equity tends to prefer.

Looking ahead, Young sees a steady M&A

market this year, albeit one with a few wrinkles. "Assuming the likely stability of the global economic/financial environment, Y&P believes that the number of deals in 2018 will

be similar to the number in 2017, but dollar value will depend heavily on which megadeals close," Young says.

"The market is sideways to slightly down, but still solid," Young adds. "It's not at a trough, but it's not at a peak." Megadeals, which distort headline dollar-value numbers, make the market look like it is peaking, even though the number of transactions has generally held steady.

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