

IHS Chemical Week

Banker: Chemicals M&A activity rising YOY, but pace has slowed

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Some \$22 billion of chemical mergers and acquisitions (M&A) deals over \$25 million were completed in the first half of 2015, up from \$14.6 billion in deals during the first half of last year, according to data compiled by Young & Partners (Y&P; New York), an investment bank. However, activity was slower on an annualized basis than the \$49 billion in completed deals for all of 2014. Activity also declined sequentially from the first-quarter of 2015 to the second, Y&P says. Average deal size during the first half of 2015 was \$511 million, up slightly from \$450 million during the same period last year.

“Unfortunately, unstable economic and financial conditions continue to persist and have gotten worse in certain regions of the world,” says Peter Young, president of Y&P. “On top of the economic developments, we have the distortions and disruptions that are being felt by the existence of divergent central bank policies, the concerns and effects of an increase in interest rates in the US, volatility in equity markets, and the foreign exchange maneuverings of countries such as China.”

The US Federal Reserve announced yesterday that it will not raise its benchmark interest rate, which remains near zero. However, the Fed still may raise rates later this year.

Despite these uncertainties, “the chemical industry as a whole has been doing well,” Young says. Most companies have remained solidly profitable despite some downside risks. There is, however, “uncertainty about forward demand for many chemical products in certain parts of the world,” Young adds. “Chemical company CEOs are still exercising caution when it comes to very large deals because of the number of perceived uncertainties, even though they have large amounts of cash and an ample ability to borrow at low interest rates.”

Private equity, meanwhile, accounted for just 12% of completed deals in the first half, about half its normal proportion, according to Y&P. High valuations and heavy competition for corporate buyers are squeezing them out, Young says. Regionally, Asia accounted for nearly half of all deals completed worldwide, the highest figure by far.

Valuations are moving through a cyclical peak, but are not entirely uniform. “Thus far through the first half of 2015, the valuations overall continued to be high, but the market is splintering, with valuations moving higher in some parts of the market and falling in others,” Young says.

The chemicals M&A market is expected to be strong through the balance of the year. Some \$22.8 billion in announced-but-not-completed deals were on the books as of 30 June, according to Y&P. However,

that figure has declined over the past couple of quarters. Looking ahead, Y&P “believes the strong M&A market in 2014 will continue in 2015,” Young says. “However, there are shifts clearly happening...as the market moves through the peak, financial buyers lose some of their relative buying power, and Asia continues to be a dominant part of the market.” Y&P expects 2015’s chemicals M&A dollar volume to exceed that of 2014, however the number of deals is expected to fall from last year’s record level.