

## M&A moderates despite announced mega deals

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YOUNG: The pace of M&A is slowing in 2016.

The pace of chemical industry M&A activity is slowing in 2016 despite the pending mega deals, particularly in agricultural chemicals and fertilizers, says one investment banker. Some \$31 billion of deals greater than \$25 million in value closed through the first three quarters of 2016, roughly on a par with the same year-ago period, says Peter Young, president of Young and Partners (Y&P; New York, New York). A total of 61 deals were completed through three quarters, below last year's total of 70 deals.

Just to tie with last year's \$65 billion in total deals would require closing \$34 billion of deals in the fourth quarter, Young says. Only the completion by year-end of either the Dow Chemical–DuPont deal or ChemChina's acquisition of Syngenta could have bridge the value gap, but that is now unlikely as extended regulatory reviews push the expected closes for those deals into 2017. "Even last year's total of 91 was already a slowdown in volume from the 109 deals in 2014," Young says. "The industry would have to close 30 deals in the fourth quarter to match last year, a near-impossible outcome."

Young expects a modest decrease in the number of deals in 2016 versus last year, "with around 80–85 deals closing and a dollar volume of around \$45–55 billion or less, which would also be less than last year's total."

A drop in value this year would be the first since the last chemical M&A trough in 2012. "The chemical M&A market in dollar terms increased in substantial steps each year starting from the trough of \$22 billion in 2012 to \$31 billion in 2013, \$49 billion in 2014, and \$65 billion in 2015," Young says.

The value of deals in the pipeline remains strong, more than \$100 billion, but several mega deals face risk of delays and to completion because of regulatory scrutiny. Sherwin-Williams-Valspar, PotashCorp-Agrium, and Bayer-Monsanto are among the deals that have targeted closes 2017 in addition to the Dow-DuPont and ChemChina-Syngenta deals, which have slipped into 2017 because of in-depth regulatory reviews.

Chemical M&A continues to shift toward Asia, Young adds. "In terms of location of M&A targets, the Asia and rest-of-the-world (ROW) category is now massively dominant," he says. "In the first three quarters of 2016, Asian deals rose to 52% of all transactions globally." This share is the highest for Asia/ROW since Y&P began tracking the figure in 1986, Young says.