

Chemicals M&A market steady in first quarter

The total value of M&A transactions in chemicals during the first quarter of 2014 stood at \$8 billion, with 17 deals completed, according to data provided by investment bank Young & Partners (Y&P; New York). The value of the deals works out to \$32 billion on an annualized basis, essentially tracking 2013's total deal value of \$31 billion. Some 20 deals were completed in the year-ago quarter, 15% higher than the figure for this quarter, Y&P says.

"Although the market volume in the first quarter has remained healthy, high stock-market valuations and CEO concerns about global economic and financial issues are still constraining the number of public company acquisitions," says Peter Young, president of Y&P. "Unless there is a significant economic or financial disruption, we will have a strong M&A market this year, but we do not expect a barn burner." High stock valuations constrain M&A, especially at public companies, by making it difficult for buyers to beat public stock-market multiples, Young adds.

Young notes that "announced deals are not so numerous or large to substantiate a case for any dramatic increase in chemical

M&A dollar volumes for 2014 over 2013." The package of divestitures announced by Dow, while substantial in total, would not make for especially large deals if they are separated—as they likely will be—and most of those divestitures will not start until the third quarter. A number of other large public-company deals are being done as spin-offs, taking advantage of high stock market valuations, Young notes.



YOUNG: Solid year expected, no 'barn burner'.

Private equity firms, meanwhile, are becoming increasingly involved in chemicals M&A. Private equity accounted for 23.5% of the completed deals in the first-quarter, which is roughly equal to its heyday in the 2000s, according to Y&P. "Private equity firms have a substantial amount of equity capital, and the availability of debt at attractive rates has allowed them to be very competitive in the M&A marketplace as buyers," Young says.

Debt financing is easy to obtain. Debt-to-Ebitda ratios of six times or higher are common, and "covenants are very generous," Young says. Private equity is also "facing more limited strategic-buyer competition," since businesses for sale often lack a logical strategic buyer or are other-

wise "not the best," he adds.

However, these conditions are a mixed blessing for private equity firms, who frequently find themselves competing with each other. High debt-to-Ebitda ratios are driving offers upward, making it more difficult for firms to get returns on their investments, Young says. "Also, [there are] concerns about how they will exit down the road if the business is of limited interest to strategic buyers and if initial public offerings continue to be few and far between in chemicals," Young says.

While stock market valuations are high, and known public entities—such as DuPont and FMC—are planning to tap into that situation with spin-offs, chemicals' IPOs remain rare. Just one chemical IPO, a \$63-million offering by biaxial oriented polyamide film maker Green Seal Holding (Xiamen City, China), was completed in the first quarter, Y&P says. "Chemical IPO activity has been very modest for the last couple of years, with only five last year and six the year before," Young says.

—VINCENT VALK

Airgas to build air separation unit for Westlake in Kentucky

Airgas has signed a long-term agreement to build and operate an air separation unit (ASU) to supply tonnage oxygen and nitrogen via pipeline to Westlake's expanded Calvert City, KY, vinyls manufacturing complex. Airgas expects the ASU, which will also supply liquid oxygen, nitrogen, and argon to the regional merchant market, to be onstream in the spring of 2016.

Westlake recently converted the Calvert City facility's ethylene plant to ethane feedstock and expanded its capacity by 180 million lbs/year. The company also increased polyvinyl chloride capacity at the site by 200 million lbs/year.

"Our investment in merchant capacity in Calvert City not only provides supply security to Westlake but also expands our merchant gas presence in this important region of the country," says Tom Thoman, Airgas president/gases production.

Airgas currently owns and operates 16 ASUs. The company says it is the fifth-largest producer of atmospheric gases in the United States.

—CLAY BOSWELL

Comex Mexico files suit against SW over deal termination

Comex Mexico has filed suit against Sherwin-Williams (SW) over SW's termination of the \$2.34-billion merger agreement between the two companies, a Reuters report says. The company has asked the International Chamber of Commerce (ICC) to arbitrate the dispute, in which Comex alleges that SW did not make enough effort to close the transaction. The suit will be seeking an unspecified amount of damages for an alleged breach of the agreement, the report says. SW has not responded to CW's requests for comment on the matter.

SW terminated the deal in early April, after a waiting period, since Mexican antitrust

authorities twice rejected the deal. At the time, Comex informed SW that it believed SW did not "use commercially reasonable efforts" to complete the deal, as defined in the merger agreement, and SW filed a complaint in a New York State court seeking a ruling that SW did not breach the agreement. That filing "was purely defensive on our part. We could not allow an allegation and breach sustain without an appropriate response," SW chairman and CEO Christopher Conner told investors during the company's most recent earnings call. SW has already acquired Comex's operations in the United States and Canada.

—VINCENT VALK