

# Chemicals' M&A activity increased in 2014

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M&A activity in the chemical industry increased in 2014 as compared with the year prior with both value and volume increases. M&A deal equity value rose 58% year-on-year (YOY), to \$49 billion, in 2014, according to data compiled by Young & Partners (Y&P; New York), an investment bank. Deal value was over double the 2012's figure; however, it remained 40% below the previous peak of \$82 billion, reached in 2011.

However, the number of deals was very high—setting a new record at 108 deals greater than \$25 million, Y&P says. This was up 30% YOY from volume levels in 2013. The average deal value in 2014 stood at \$450 million, a figure that is “respectable but not huge,” says Peter Young, president of Y&P.

“Activity was driven by low interest rates, strong cash flows, a buildup in cash balances, portfolio restructurings, acquisitions and divestitures by financial buyers, and a need to supplement organic growth with growth through acquisitions,” Young says. The largest chemicals M&A transaction completed in 2014 was Samsung SDI's acquisition of electronic materials maker Cheil Industries for \$4.1 billion.

Lingering issues with CEO confidence still drag on M&A, Young says. “Although CEOs are more optimistic than they were in 2009, they are still exercising caution,” he adds. “The key issue is whether the fragile global economic and financial conditions remain stable or are negatively impacted. CEOs have been seeing too many economic, financial, and political clouds to do very large deals.”

Strategic buyers were predominant in larger deals. Only 2 of the top 10 deals by value involved private equity buyers: printing inks maker Flint Group's (Luxembourg) acquisition by Goldman Sachs (New York) and Koch Equity (Wichita, KS), and Ashland Water Technologies' acquisition by Clayton Dubilier & Rice (New York), according to Y&P.

Other top deals were undertaken by large strategic buyers, such as Eastman Chemical, PPG, Mosaic, Ineos, and Merck KGaA.

In terms of sectors, commodity chemicals was in the lead, with 33 deals—about 31% of total deal volume, according to Y&P. Higher-value petrochemicals were next, with 28 deals, with fertilizers and food/flavors and fragrances following, with nine and seven deals, respectively. The top two categories together accounted for 61 deals, about 56% of the total.

Meanwhile, Ebitda multiples in 2014 were in line with long-term trends. Ebitda multiples for specialty chemical deals averaged 9.9 times (x) in 2014 compared with 9.5x in 2013, according to data compiled by Scott-Macon (New York), an investment bank. The figures are “close to the 10-year median and a little below 2011 and 2012,” says Allan Benton, vice chairman with Scott-Macon. Ebitda multiples for commodity chemical deals averaged 7x, according to Scott-Macon. Although the data sets were different, value and volume trends in Scott-Macon's data were similar to those in Y&P's data.

Bankers say that with a number of large announced transactions—such as Merck KGaA's \$17-billion acquisition of Sigma-Aldrich—in the pipeline, 2015 is shaping up to be a strong year. “The outlook for 2015 looks strong for the same reasons that 2014 was a strong year, with just a few deals breaking through the \$5-billion mark,” Young says. One of those transactions, Albemarle's \$6.2-billion acquisition of Rockwood Holdings, closed in January.