

M&A about to peak?

The backlog of deals at the end of Q1 2015 was healthy, but fell on both a dollar volume and number of deals basis, with 25 deals worth \$30.5bn yet to close

JOSEPH CHANG NEW YORK

The dollar volume of global chemical mergers and acquisitions (M&A) activity is set to increase in 2015 over last year's total, but there are signs that the market is peaking, according to one investment banker.

"We expect incrementally higher dollar volume in deals in 2015 versus 2014, but not the same pace as last year's record in terms of number of deals," said Peter Young, president of investment bank Young & Partners.

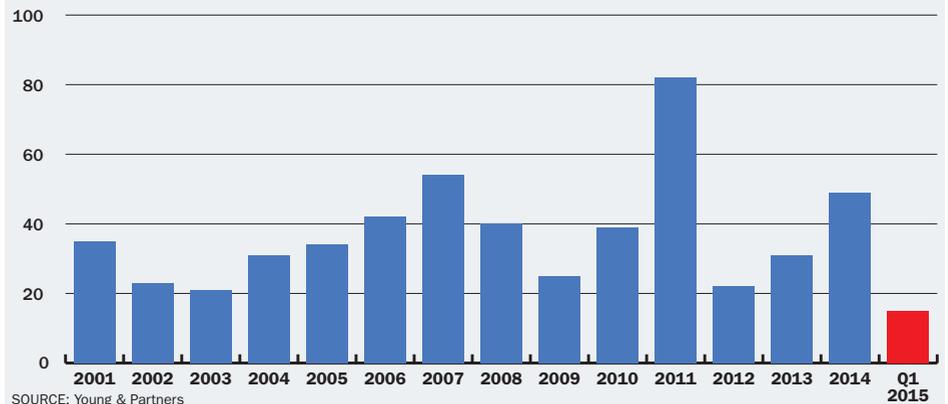
"While the average deal size will rise, CEOs are still largely reluctant to engage in 'bet-the-farm' transactions. High stock market valuations and CEO concerns about global economic and financial issues are still constraining large-deal activity," he added.

The only mega deal to come this year will be the pending \$17bn acquisition of US-based research chemicals company Sigma-Aldrich by Germany's Merck KGaA, which is being driven by a special set of circumstances, said the banker.

In the first quarter of 2015, there were \$15bn of global chemical deals over \$25m in

ACQUISITIONS OF WORLDWIDE CHEMICAL COMPANIES – EQUITY VALUE

\$bn, equity value of disclosed deals over \$25m in size



SOURCE: Young & Partners

size on an equity basis completed, versus \$7.6bn in Q1 2014. This includes US-based Albemarle's \$5.6bn (\$6.4bn enterprise value) acquisition of US-based Rockwood Holdings, the largest deal in Q1.

In 2014, there were 108 deals over \$25m in size completed, worth a total of \$49bn in equity value.

The number of deals completed in Q1 2015 totaled 23 versus 17 in Q1 2014. However, this is below the quarterly average of 27 for all of 2014, noted Young.

The M&A market is being driven by the usual factors that have persisted for the past several years – low interest rates, strong cash flows and a build-up of cash on balance sheets, portfolio restructurings, acquisitions and divestitures by private equity firms, and the need to supplement slow organic growth with acquisitions, said Young.

M&A in the US and Asia led among geo-

graphic regions in Q1 2015 – each with about 35% of deals completed worldwide.

"Asia has been in the lead for 6-7 years but now the US is picking up as the US economy is perceived as relatively stable and its relative cost position is favourable," said Young.

"However, Asia is where the growth is, and that will attract and drive a great deal of the global M&A activity. India in particular has strong prospects for growth along with China," he added.

Giving an indication of future activity, the backlog of deals at the end of Q1 2015 fell on both a dollar volume and number of deals basis, with 25 deals worth \$30.5bn announced but yet to close – down from 30 deals worth \$37.2bn at the end of Q4 2014.

"Although the dollar volume and number of deals are still healthy, this is the first time in a while the backlog has fallen on both measures," said Young.

"The likelihood of a major escalation in activity in the second half of 2015 is not high, but we still are confident in our forecast of 85-95 completed deals worth \$55-60bn. The M&A market is still healthy but the nuance has shifted," he added.

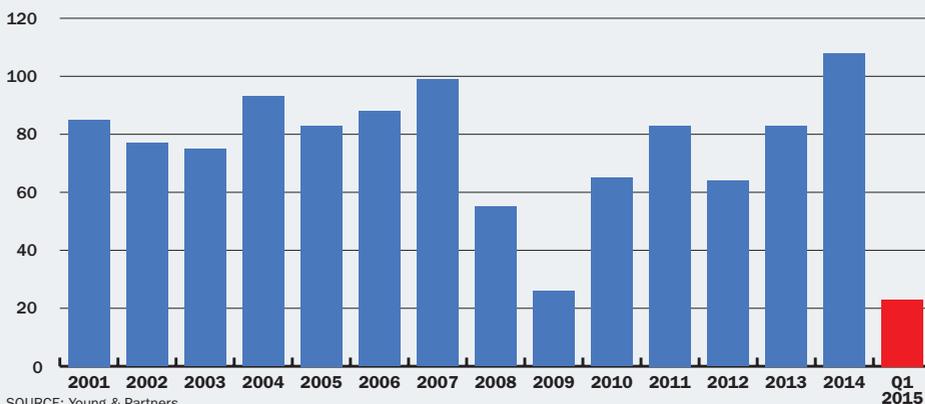
It will be tougher sledding for private equity buyers in the second half of 2015 and beyond if the US Federal Reserve hikes interest rates later this year.

In the meantime, M&A valuations are hovering at the peak where they've been for around two years, according to Young.

"Ultimately you will have peaks and troughs, and you often don't know what will trigger the downturn," he said. "At some point, the M&A cycle will turn down in terms of both volume and valuations." ■

ACQUISITIONS OF WORLDWIDE CHEMICAL COMPANIES – NUMBER OF DEALS

Total number of transactions over \$25m in size



SOURCE: Young & Partners