M&A strength seen in 2013 expected to continue

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Favorable demand and market conditions helped lead chemical M&A activity higher in 2013 with indications that gains will continue in 2014, says one industry banker.

“The M&A market experienced a significant rebound in 2013,” says Peter Young, president of Young & Partners (Y&P; New York). The equity value of deals completed in 2013 was $31 billion, 41% above 2012, according to Y&P data. The deals include transactions with values of more than $25 million. There was also a solid increase in the volume of transactions. “There were 83 deals completed in 2013, 30% above the prior year,” Young says. “While M&A activity has rebounded nicely, it still remains well below the 2011 peak of $82 billion (chart),” Young says.

The number of deals above $1 billion in 2013, nine, increased only modestly from seven in 2012. “Concerns about China, lingering problems in Europe, new concerns about emerging markets, anxiety over the US debt ceiling and budget crisis [last year], and rising interest rates are contributors to the continued lack of very large transactions,” Young adds.

The 2014 M&A outlook is “very positive as long as there are no significant economic disruptions” in the larger economies of Europe, China, and the United States, Young says. “This is possible but not highly likely,” he adds. “Meltdowns in the smaller emerging markets would not be large enough to have a broad effect unless it spread to the larger economies.”

Valuations also increased in 2013 for commodity and specialty chemical assets in what was a strong year for chemical stocks and the broader market, Young says. Y&P’s index of basic stocks increased by 34%, specialties were up 27%, and diversifieds were up 38%. The broader S&P500 Index gained nearly 30% before dividends in 2013. “This strong stock market performance also drove up the valuations of chemical companies … with clear impact on the M&A market and the [initial public offering] market,” Young says. The one laggard was the Y&P fertilizer index, down 9%, but that market was beset by turmoil in potash and fertilizer markets after last summer’s collapse of one of two cartels that controlled most of the world's potash exports.

The most notable equity market event in 2013 was the flurry of shareholder activist activity against chemical companies, Young says. Targets included Air Products, American Pacific, Ashland, Ferro, DuPont, and LSB Industries. Dow Chemical is also facing an activist shareholder, Third Point, which disclosed a stake in early January. “This interest on the part of the shareholder activists is somewhat mysterious because chemical companies are trading at very high valuations, making them less-obvious targets as ‘undervalued’ companies,” Young adds.