Chemical M&A retreats further

Only 20 deals over $25 million in size closed in H1 2024, a major slowdown on an annualized basis from the 75 deals in 2023 and the 86 deals in 2022

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The global economic picture has been mixed. A limited number of countries and regions are experiencing growth (US, China, India, Southeast Asia), but most countries are struggling, such as those in Europe. Meanwhile, the US and Chinese economies are slowing down.

Thus far in 2024 and going forward, we will continue to face a high degree of uncertainty regarding the global economy, global geopolitical tensions and conflicts, high interest rates, and uncertain election outcomes in many countries such as the US that will have significant economic and geopolitical consequences.

Since the prosperity of the chemical industry is heavily tied to global economic conditions, 2024 has been difficult year for the chemical industry in terms of demand and profitability.

In addition, there have a number of chemical industry specific challenges that occurred in terms of continued customer inventory drawdowns, fluctuating oil and gas prices, and the buildup of capacity in China that has been an important destination for Western produced chemicals for many years.

The future looks particularly difficult for commodity chemical companies with the normal cyclical downturn combined with major increases in capacity in Asia and the Middle East that are driven by factors unrelated to normal cyclical increases in capacity.

The rationale in the Middle East is a desire to have more diversified economies that are less dependent on oil and gas.

The rationale in China is hard to justify because China does not have clear advantages in terms of low-cost oil and gas like the US or the Middle East. Chinese expansions, particularly by state owned enterprises, are driven more by the government's goals to be less dependent on imports. After an industry is established, the government is less willing to rely on foreign owned or jointly owned petrochemical plants to satisfy this goal.

There has also been a surge in ESG and sustainability pressures on chemical companies, and in particular, around plastics and carbon neutrality. This is forcing changes in business models and spending that are recreating a host of business and financial challenges.

M&A downturn

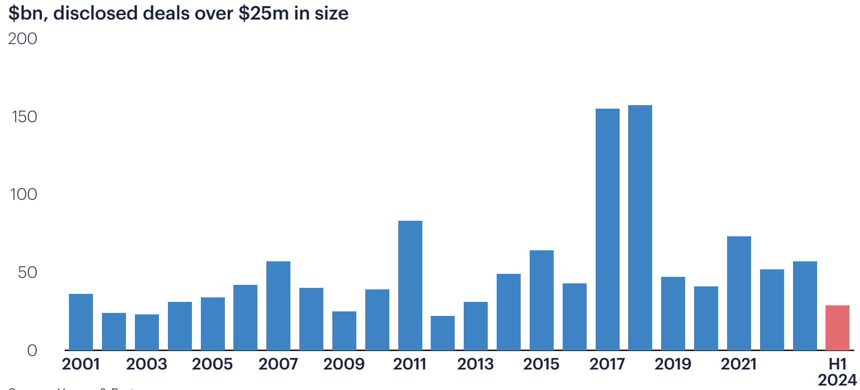
It is not a surprise that the chemical industry mergers and acquisitions (M&A) market is being driven heavily by the global and chemical industry economic and geopolitical factors. The result has been a continuation of the M&A market downturn. Except for the ongoing consolidation activity in the Chinese chemical industry and an uptick in the private equity sector's acquisition of specialty chemical companies, the rest of the market is flat to declining.

Around $28.6 billion worth of deals over $25 million in size closed in H1 2024 compared to $57.1 billion in 2023. On an annualized basis, H1 was on pace with 2023 on a dollar basis, but one large deal (the merger of Novozymes and Chr. Hansen for $11.4 billion) was the reason.

The number of deals that have closed tells a different story. Only 20 deals of over $25 million in size closed in H1 2024, a major slowdown on an annualized basis from the 75 deals in 2023 and the 86 deals in 2022. A look at the number of deals that closed each quarter in 2023 and in 2024 tells the same story of a slowing M&A market.

Acquisitions of worldwide chemical companies – equity value

$bn, disclosed deals over $25m in size



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These factors have overwhelmed the drivers of activity going the other way such as the strategic priorities of companies seeking synergistic additions, the ongoing consolidation going on in China and the rest of Asia, the liquidity needs of private equity firms, and the portfolio rearrangement goals of strategic players.

The trends underneath the totals are quite interesting.

Commodity chemical deals decline

Commodity chemical deal activity continues to fall. The volume of commodity chemical transactions in H1 2024 accounted for only 35% of the total number of deals, a continuation of the decline in 2023. None of the deals were in Europe. Commodity chemical deals are normally around 50% of the total historically.

Commodity chemical valuations are depressed and will remain so given the uncertainties in the commodity chemical industries. Specialty chemical M&A volume has fallen, but not has severely as commodity chemicals and valuations have fallen moderately.

Geographically, the chemical M&A market continues to be dominated by deals in Asia/Rest of the World (ROW). The global share of deals completed in Asia and ROW in H1 was 55.0% of all global deals, similar to the 55.4% share in 2023. All of the buyers of those Asian businesses were Asian. There are two reasons for this. First, a consolidation trend usually involves local producers. Second, non-Asian companies are very hesitant today to invest in China.

Outside of Asia, the US continues to be seen as a favorable place to make chemicals. As a result, the U.S. accounted for 30.0% of all deals in H1 2024, above the 25.7% for all of 2023. Europe ended up with only 15.0% of the deals completed worldwide in H1 2024 versus 18.9% in 2023 as buyer interest in European chemical assets continues to be weak.

Predictions for 2024

What is our prediction for Chemical M&A for the rest of 2024 and beyond? We forecast that deal volume for all of 2024 will be around $45-$50 billion and 40-45 deals, well below 2023 in dollar terms and number of deals.

Supporting that prediction, the value of deals announced but not closed as of 30 June 2024 was only $18.8 billion (21 deals), which suggests a continuation of the slow pace in H1.

The drivers supporting continued activity will be strategically imperative divestitures and acquisitions, divestitures by private equity owners, consolidation activity in China, and the restructuring activities of commodity chemical companies forced by the industry downturn and structural issues.

In essence, the factors suppressing M&A activity are unlikely to go away and the drivers of M&A activity are not going to escalate.

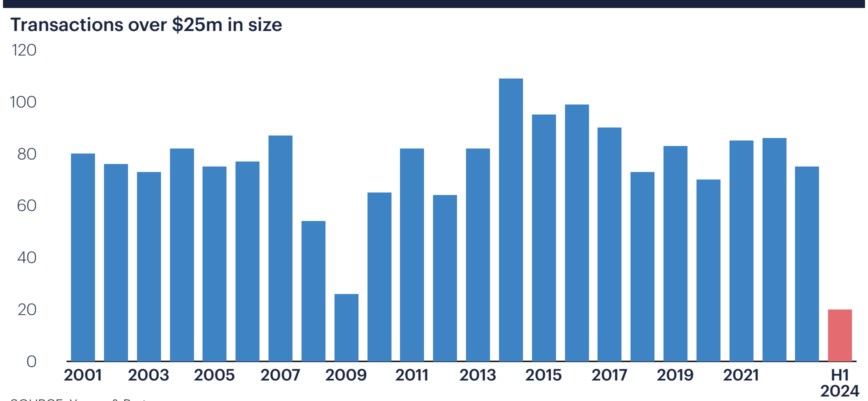
Implications for private equity

For those who want to sell chemical assets, the market has weakened and valuations have come down, but specialty chemicals M&A is still moderately healthy.

Commodity chemical businesses, on the other hand, will be very challenging to sell. Owners of European chemical assets, and commodity chemicals in particular, will be facing difficult decisions about their businesses. We expect to see many closures and divestitures at low valuations.

For buyers, this is a reasonable time to be buying specialty chemicals businesses with less competition from other strategic players. Commodity chemicals will be much easier to acquire at lower multiples, but there must be a strategic rationale, even at the current lower valuations. ■

Acquisitions of worldwide chemical companies – number of deals



SOURCE: Young & Partners

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