

## "Asian paint companies continue to be aggressive in pursuing assets in Europe"

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Despite the decreasing number of takeovers and mergers in recent months, Ben Scharff, an expert on corporate transactions, sees a new dynamic in recent months. In our interview, the Managing Director of Grace Matthews explains why.



### Do you see an increase or decrease in Merger and Acquisition (M&A) activities in the industry?

**Ben Scharff:** While aggregate deal volumes have been comparable year-over-year, we certainly expect to see the slowdown that started in Q3 2018 to be fully reflected in 2019 full year transaction data. We estimate that transaction volumes will start to pick up in the second half of 2019. However, we anticipate that overall annual deal volume to be down ~10 % over prior year. Again, this is as much a crystal ball read of the global economy as anything. Strong markets will lead to strong deal flow. We aren't there at present and the markets need a boost or stimulus to get us there. Status quo is still pretty healthy though, and we anticipate similar levels of activity for valuations and deal flow as we enter and navigate through 2020.

### What development in regard to M&A activities do you expect for the remainder of 2019 and the beginning of 2020?

**Scharff:** Two observations of note. First, we will continue to see portfolio optimisation from the large industry players. Second, we will see the impact of the substantial pools of private equity capital being raised specifically focused on chemical-related transactions. Given valuations, pressure from activist shareholders and the aggression of the buyer community, large chemical and coatings players continue to deploy a portfolio management strategy. This strategy results in a higher receptivity to inbound inquiries for non-core assets, as well as proactively looking to carve-out businesses that could have a better home. Unlike many carve-outs of the past, many of the businesses being carved out are good, healthy businesses. While carve-outs logically and more frequently end up with a strategic partner, certain PE firms like SK Capital and OpenGate have built their business around being very good buyers of these assets.

Ben Scharff is Managing Director at Grace Matthews.

Companies like DuPont and RPM have recently stated that they will be looking to divest certain operations. One deal receiving a lot of attention in the market at present is BASF's sale of its USD 3 billion construction chemicals operations. Our firm has completed roughly 10 carve-out transactions since the beginning of 2017, and we anticipate this rate of activity to continue. Private equity has become increasingly more active in chemicals and coatings M&A. We have seen multi-billion-dollar transactions recently from Advent, EQT Partners and Carlyle.



### Will the market benefit from the ongoing consolidation or have we reached a level that will have a negative impact?

**Scharff:** Disruption creates opportunity, and that opportunity is obviously not shared equally across the market. The recent activity in chemical distribution is a good example. While Azelis simply changed private equity owners, we have witnessed a significant amount of discussion surrounding the Univar/Nexeo transaction and impact to be felt throughout the value chain. On one hand you have efficiencies created through a consolidation of the supply chain, and with the freight/transportation issues experienced in the US (and Europe to a lesser extent) that efficiency can save time and money.

### There have been many rumors including Axalta and Akzo Nobel. How likely is it that one of these companies will become a target for an acquisition?

Over the past few years there has been considerable discussion around where Axalta, Valspar and RPM may end up. After Sherwin Williams' acquisition of Valspar, attention has shifted to Axalta and RPM. With PPG's overtures to AkzoNobel, and the subsequent spin-off of its chemical operations, AkzoNobel has re-entered those discussions as well. At present, RPM and Axalta both seem to be content with smaller, strategic acquisitions. RPM is rationalizing operations to drive cost savings – a function of historically acquiring businesses and letting them run fairly autonomously.

Axalta has been a very successful acquirer of businesses over the past few years – having made acquisitions that were high on target lists for all of the major coatings companies. Both companies clearly have a desire to drive growth to make them less of a takeover target, however given the scarcity of middle market coatings assets out there it seems unlikely that either will be able to make a push in the short term to grow meaningfully via acquisition.

A 2020 transaction involving Akzo Nobel would make sense. Either PPG reengages in discussions on an acquisition of them or Akzo Nobel makes a run at acquiring either Axalta or RPM. Some of the Asian buyers could also be in the mix for US or European coatings assets, including the aforementioned assets or someone like Jotun, Hempel, Ben Moore or Beckers.

### PPG has done some minor acquisitions recently. Do you expect any further moves?

PPG will continue to pursue and execute on opportunistic acquisitions. Recent transactions of Whitford, SEM Products and Hemmelrath were all small, safe add-ons. With little downside, PPG can leverage their infrastructure to drive top line growth and cost savings for each of these targets. These deals won't be substantial "needle movers" for the company, however PPG has been more focused of recent on appeasing dissident activist shareholders. They have undergone substantial work to validate their current business model and justify keeping the business intact.

**Mostly European or North American companies are involved as buyers in bigger moves. Can we expect further and more aggressive moves by Asian paint companies?** As evidenced by the increased amount of inbound inquiries, we fully expect the large Asian paint companies to continue to be aggressive in pursuing assets in Europe and North America. Our firm has sold 2 businesses over the past 12 months to Asian buyers. In both cases they paid full values and were able to keep up in a process – both historically viewed as challenges for buyers in that region. Nippon Paint's acquisition of DuluxGroup and KCC Corp's acquisition of Momentive are both examples of recent noteworthy and successful transactions from Asian buyers.

*The interview was conducted by Damir Gagro*

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