



WHO BOUGHT WHOM?

All the takeovers and mergers in the paints and coatings industry at a glance. By Damir Gagro.

It would be no exaggeration to say that the industry went on a buying spree in 2017. Nearly every week, takeovers were announced and agreements reached. The first six months of 2018 also saw acquisitions in the paints and coatings industry, but these were small in number and not as frequent.

The takeover carousel might not have whirled around as dizzily in the first half of 2018 as in the previous year, but plenty of transactions were reported nonetheless. Late 2016 and especially early 2017 produced a series of deals in quick succession. Nearly every week, there were reports of a completed or imminent transaction. Particularly active in the market was notably Axalting Coating Systems, a company which itself had been mooted as a takeover target within industry circles for several years. It acquired Century, Spencer Coatings, and Plascoat, before going on to buy up Valspar's wood coatings business. Finnish manufacturer Teknos bolstered its activities by snapping up both Feyco Treffert and Sniezka's powder coatings business. And last year, the Helios Group, a heavyweight in the European coatings industry, was sold to the Japanese Kansai Group.

AN END TO THE BUYING SPREE IN THE CHEMICALS INDUSTRY?

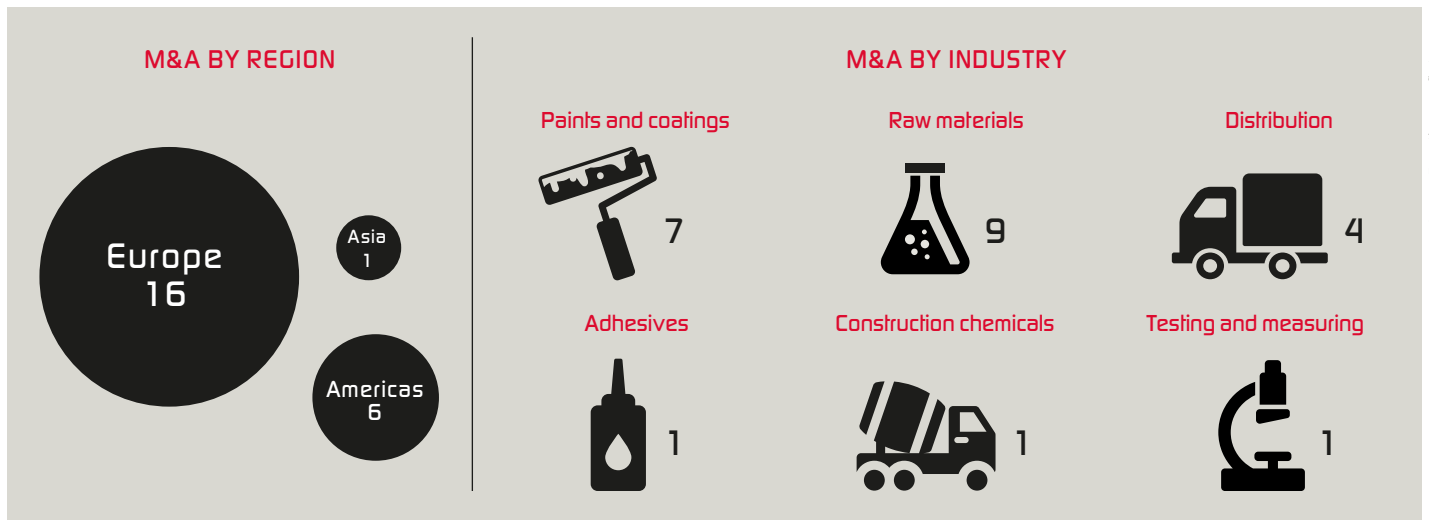
While details of the transaction sums for the various acquisitions were for the most part kept secret, it is unlikely that any of them topped the sale of Akzo Nobel's chemicals division for EUR 10.1 billion. If consulting company A.T. Kearney is to be believed, transactions of this magnitude will be few and far between in the future. There is talk of an end to the buying spree within the chemicals industry. Dr. Otto Schulz, a partner at

A.T. Kearney, says that the situation in the chemicals M&A market is now more complex as a result of the recent mega-deals. Companies are still in the mood to buy, he notes, but there are very few major targets. Recent years have seen the industry dominated by numerous mega-deals, which drove the wave of consolidation to record highs. The latest study produced by the consulting firm shows that the number of mega-deals is on the decline. In Europe, announced deal value fell by almost three quarters (-73%) compared to 2016, with the sharpest drop in global M&A activities expected in the case of state-controlled players. Ben Scharff of Grace Matthews, a company specialising in transaction advice, takes a different view. The number of transactions is staying constant, he says in an interview with the editors of the European Coating Journal (page 13). As for paints and coatings manufacturers, the first half of 2018 was relatively quiet. Tikkurila is withdrawing from the Balkans and selling the share capital of its subsidiaries there to local partners. Alpina has taken over distribution of Clou's DIY business. Probably the most significant deal has been the sale of 65 % of family-run J.W. Ostendorf to the Hempel Group.

MEGA-DEALS ARE OVER FOR THE TIME BEING ... OR ARE THEY?

Following Akzo Nobel's rejection of PPG Industries' takeover bid last year, a purchase to rival the calibre of Sherwin-Williams' acquisition of Valspar is not expected in the near future. Under antitrust law, Sherwin-Williams was the only major corporation that could buy Valspar. Here, again, Scharff has a different opinion. He expects a merger of two heavyweights, such as PPG, Akzo Nobel, Axalta, RPM or an Asian

Figure 1: M&A activities in the first six months in 2018 by region and industry.



Source: Freepik - www.flaticon.com

giant, within the next two years. Recent years have been mainly marked by consolidation. Competition in specialty and fine chemicals will further intensify due to new suppliers, less innovation and low organic growth. The experts at A.T. Kearney believe that the new complexity requires companies and their managers to consider smaller strategic objectives as a way of driving growth and achieving cost synergies. For this reason, consolidation in the market will continue, but will more

likely be on the usual scale seen in recent years. This will again increasingly take the form of bolt-on acquisitions that grant entry into new regions, grant access to new technologies or expand the product portfolio or simply save costs and generate synergies. Scharff sees developments happening this way, too, but expects investors to increasingly crowd their way onto the market. For the market, he believes, is very attractive to private investment companies. ◀

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Buyer	Country	Target	Country	Segment	Remarks
Paints and coatings					
Akzo Nobel	The Netherlands	V.Powdertech Co., Ltd.	Thailand	Powder coatings	
Akzo Nobel	The Netherlands	Fabryo	Romania	Architectural coatings	
Alpina Farben GmbH	Germany	Alfred Clouth Lackfabrik	Germany	Wood coatings	Alpina takes over the distribution of Clou's DIY business
Hempel	Denmark	J.W. Ostendorf	Germany	Architectural coatings	Hempel purchase 65 % of the German based paint manufacturer, J. W. Ostendorf.
Siegwerk	Germany	Tupahue Tintas	Brazil	Printing inks, coatings and solvents for flexo and gravure printing	
Zorka Color	Serbia	Tikkurila	Serbia	Architectural coatings	Tikkurila's local partner Zorka acquires the local site
Zorka Color	Republic of Macedonia	Tikkurila	Republic of Macedonia	Architectural coatings	Tikkurila's local partner Zorka acquires the local site
Raw materials					
Alberdingk Boley	Germany	Synthomer Leuna GmbH	Germany	Binders	Alberdingk buys a local production site from Synthomer
Astorg	France	IGM Resins	The Netherlands	Binders	
Carlyle Group and GIC	USA / Singapore	Akzo Nobel Speciality Chemicals	The Netherlands	Diverse raw materials	
Dominion Colour Corporation	Canada	Gemini Dispersions	United Kingdom	Dispersions	DCC merges Gemini Dispersions into parent organization
Kolb Distribution	Switzerland	Elementis Specialties Netherlands	The Netherlands	Diverse raw materials	
Protech/Dxyplast	Canada	Chemionics Corporation	USA	Specialty plastisol and latex formulations	
Sabic	Saudi-Arabien	Clariant	Switzerland	Diverse raw materials	Sabic acquires 25 % of the shares in Clariant
Synthomer	United Kingdom	BASF (local site)	Austria	Styrene-butadiene-based paper dispersions	
Vink Chemicals	Germany	Prom Chem (biocides business)	United Kingdom	Biocides	
Adhesives					
H.B. Fuller	USA	Royal Adhesives & Sealants	USA	Adhesives	
Construction chemicals					
Sika	Switzerland	Emseal Joint Systems	USA	Structural expansion joint products, adhesives and sealants	
Distribution					
PPG	USA	ProCoatings	The Netherlands	Architectural coatings	PPG buys Dutch architectural paint and coatings wholesaler
Safic-Alcan UK	United Kingdom	Techform Fine Chemicals	United Kingdom	Diverse raw materials	
Uzin Utz	Germany	Forinn bv	The Netherlands	Flooring systems	
Uzin Utz	Germany	Bosgoed Groothandel bv	The Netherlands	Flooring systems	
Testing and measuring					
Anton Paar	Germany	Quantachrome Instruments	USA	Measuring equipment	

* This list does not claim to be exhaustive

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Ben Scharff

Four questions to Ben Scharff

Grace Matthews offers transaction advisory services for manufacturers and distributors throughout the chemical and materials value chain. The company's managing director, Ben Scharff, talked to the editorial staff of the European Coatings Journal on the recent level of activity regarding mergers and acquisitions (M&A) in the paint and coatings industry. According to him, the activity in 2018 is roughly the same as last year. However, he expects further acquisitions and forecasts a combination of two of the major players in the coming two years.

After the first six months in 2018, how do you rate the M&A activities in the paint and coatings sector in this year compared to last year? Based on our internal tracking metrics, we see roughly the same level of activity in announced paints and coatings activity through the first five months of 2018 as we did for the same time period last year (36 vs. 34). Moving upstream though we have seen a marked increase in the number of announced resin and polymer transactions versus the prior year (38 in 2018 vs. 22 in the first 5 months of 2017). We anticipate that activity will remain strong for the balance of 2018 as most companies continue to perform well and valuations remain buoyed by the significant amount of capital available from both strategic and private equity to pursue transactions.

What development do you expect for the next six to 12 months regarding M&A activities in the paint and coatings sector, will there be more activity or has the situation cooled off? While we anticipate the number of transactions to remain fairly constant, we expect that they will occur at the large and small ends of the market. Due to the heavy and continuous consolidation in paint and coatings, we are starting to see a void emerge in the existence of middle market coatings manufacturers. Those between \$50M and \$500M are becoming less common. We see private equity chipping away at this and attempting to fill this void by executing on buy and build strategies with smaller, mainly industrial coatings companies.

The last mega deal was between Sherwin-Williams and Valspar. Do you expect any further deals of that scale or is it more likely to see more of the types of recent years such as bolt-on acquisitions? Without a doubt we will continue to see a significant number of bolt-on, safer acquisitions. Companies will do this to expand geographical presence, add technology or key customers, or even to onboard a new channel to market strategy. While these deals occur, there will continue to be chatter in the market regarding PPG, Akzo, Axalta, RPM and some of the large Asian coatings manufacturers. We expect that over the next 12-24 months we will see some combination of these companies. All are publicly traded, and all have extreme pressure to grow beyond the GDP growth rates of their respective end markets.

To what extent will private equity firms play a bigger role in M&A activities in the paint and coatings industry? We continue to see increasingly strong interest from private equity across the paint coatings value chain. In the past year, we have seen raw material suppliers, coatings manufacturers as well as distributors serving this space. In each instance we have witnessed private equity being very aggressive regarding timing, terms and valuation. Paint and coatings remains an attractive end market to execute a roll-up strategy. As such, we will continue to see private equity aggressively participate in this sector.



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