

CHEMICAL INSIGHTS



Current State of Chemicals M&A: Catching Our Breath Heading Into 2021

As we start the new year, the current M&A market has many similarities to the end of 2019: increasing deal activity in terms of both completed processes and projects being launched; strong appetite from both private equity and strategic acquirers; and an overarching sense of optimism in terms of deal activity and deal momentum. However, as we reflect on the year behind us and what lies ahead, we can all agree - the path from December 2019 to December 2020 was a (we hope) once-in-a-lifetime roller coaster. We often spend our newsletters focused on analyzing trends and data in a particular segment - here, we focus on reflecting on the year behind us and what we feel is ahead in the next couple of quarters.

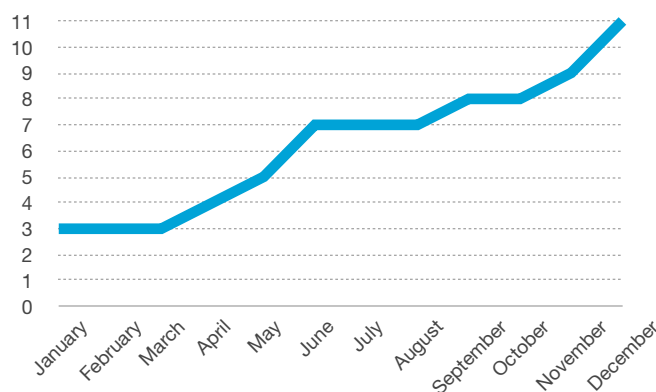
From an M&A perspective, successfully navigating 2020 required patience amid the uncertainty caused by COVID-19 and creative deal-making to navigate obstacles presented by the pandemic. Grace Matthews advised on 11 transactions that closed in 2020 - we are pleased (and fortunate) to say this is slightly above our near-term historical levels for a given year. Based on our current projects and outlook for the near-term, we expect this momentum to continue into 2021, as a combination of unprecedented levels of inbound inquiries/unsolicited offers to potential sellers, continued portfolio optimization driving increased carve-out activity for large corporates, and abundant capital from private equity funds should create a very robust chemicals & materials M&A market in 2021.

As we look at our closed transactions in 2020, we saw a fairly steady cadence, including three closings during Q1, two during the pandemic shutdowns (April - May 2020) in the US, and the remainder during the back half of the year. See Figure 1 for additional detail.

We attribute the successful year to a strong start (which began in 2019 and even before) but also to the following:

- **Strong strategic fit between buyer and seller in terms of projects closed in Q2:** buyers for these transactions had already completed much of their diligence and were able to overlook the chaos in the financial and debt markets in order to finance the transaction - they recognized that no single month or quarter of pandemic-driven hiccups would offset the overall fit and purpose of the acquisition

Figure 1: Grace Matthews Deal Activity
Closed Deals in 2020



- **Resiliency and impressive performance from our clients' businesses that closed in Q3 and Q4:** businesses that held serve or even grew throughout the year enabled us to focus processes on growth potential rather than explaining recent performance
- **Well-run processes that created options and leverage:** leverage comes in many forms, and we pride ourselves on tailoring our advisory role to meet the goals of our clients; despite the uncertainty of 2020, we were able to consistently put both sellers and buyers in positions where they could reach the finish line of deals
- **Industry expertise and network:** economic uncertainty heightens the need for deep chemical industry knowledge and strong relationships with buyers and sellers, and this is undoubtedly a helpful tool when going through a process

To be clear, 2020 was not all positive news for us or our industry. We saw multiple projects sidelined and even had other clients take substantial steps backward, to the point where an M&A process is not in the near-term (or even long-term) future. More specifically, we had three instances where marketing materials were fully prepared and the process was never launched. In one of these cases, which was a sell-side engagement, we were less than a week away from contacting potential buyers. For other clients, industry dynamics and/or substantial impact from COVID-19 have made a potential sale process, which requires substantial commitment from management in addition to their "day jobs," impossible at this point. We understand that effects from COVID-19 and the resulting economic fallout will prevent some engagements from reaching a successful outcome—this is a fundamental aspect of our business. In these situations, the best course of action may be to retrench, focus internally, and simply wait until the business can recover.

"Looking to 2021, we remain confident, optimistic, and excited about M&A activity in the chemicals and materials industry."

Looking to 2021, we remain confident, optimistic, and excited about M&A activity in the chemicals and materials industry. We expect the following:

- Strong competition for high-quality assets may force buyers to find ways to differentiate themselves to potential sellers, such as by using unsolicited offers and/or inbound inquiries
- Increasing capital controlled by private equity funds that needs to be deployed coupled with pressure on publicly traded companies to demonstrate growth, either organically or inorganically
- Portfolio optimization within multi-national strategics that should result in continued carve-out activity in the marketplace
- Unique intersection of the heightened awareness of risk, a global pandemic slowly subsiding, and unknown medium and long-term impacts of unprecedented stimulus programs causing certain business owners to explore transactions in 2021

In multiple instances in 2020, we created value for our clients in one-off negotiations that began with a conversation with one strategic buyer. We previously mentioned that we are seeing unusually high levels of unsolicited offers and/or inbound inquiries to business owners. Over the last few months, we have been called by multiple business owners who received an inbound inquiry and would like our support in managing the response and negotiation process. As an example, we advised on a deal last year where a client received an unsolicited offer, including a full term sheet, and a proposal to close in 45 days. The fit between buyer and seller, in our view, was incredibly strong, and we were all collectively able to execute on the deal in the proposed timeframe. As buyers look for ways to differentiate themselves in a competitive market, we expect this behavior to continue.

We also expect private equity funds to aggressively pursue new platforms while publicly traded companies bolster organic growth by pursuing M&A targets that fit with their long-term growth strategies. With cash on the sidelines for much of Q2 and Q3 last year due to the uncertainty imposed by COVID-19, private equity funds found themselves focused on existing portfolio companies rather than acquiring new targets. "Dry powder" held by private equity funds has continued to climb (reaching \$1.5 trillion as of June 2020, according to Preqin), and with the market re-opening following the Q2-Q3 hiatus, we find ourselves in a scenario where there is a temporary mismatch between supply (capital) and demand (only a finite number of assets in the marketplace). This abundant dry powder is combined with the need for publicly traded strategics to demonstrate growth in order to justify increasing stock prices and trading multiples. For strategics not seeing strong organic growth, M&A is an appealing lever to pull. From a sellers' perspective, this combination is an attractive underlying dynamic.

We believe multi-national strategics will continue to look closely at their portfolio to identify assets that may not fully align with their long-term strategy. Given the underlying strength in the M&A markets, divesting these non-core assets often creates significantly more value than continuing to hold them, and we expect to see robust carveout activity as a result. Portfolio management is always front and center within the strategics we talk to, and the disruption caused by COVID-19 has made resource allocation a priority. For 2021, the corporate development role within larger organizations may be more important (and busier) than ever.

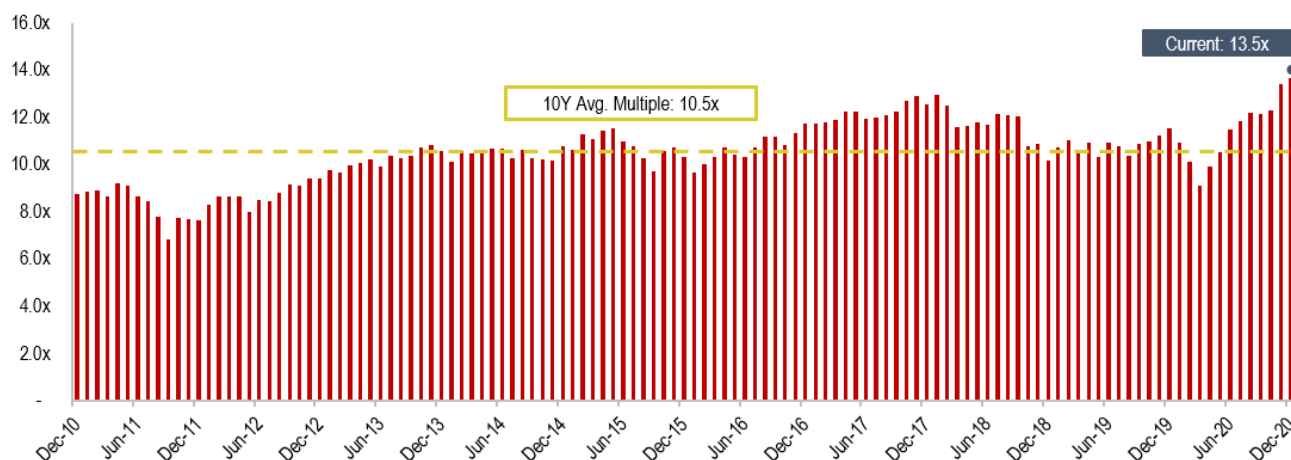
Finally, we believe 2021 may be a year in which more business owners explore a possible sale transaction. The risks, both known and unknown, of owning a business were brought to the forefront and, in some cases, exposed over the course of 2020. Simply put, for most business owners, 2020 was a scary year. With unprecedented stimulus packages in 2020 (in other words, embedded inflation from the federal reserve printing money) having masked the near-term downside, the medium and long-term impacts of these packages is unknown. By one measure, the money supply in the US increased over 20% in 2020 alone, and we do not know what impact this will have on asset values, inflation, long-term interest rates, and more.¹ Simplistically, it is more dollars chasing the same amount of assets. For many business owners, we expect what was once a long-term goal (sale of a business) to be contemplated in 2021 for the first time. While the time may not be right for all these owners to explore a sale, we are already having this conversation with multiple owners who fall into this category.

Overall, the combination of capital-rich buyers looking to differentiate themselves, privately held businesses entertaining compelling inbound inquiries to sell, and strategic sellers optimizing their portfolios creates a favorable mix for what should be a strong start to 2021. For those contemplating a sale process, we often ask our potential clients two questions: is the market ready, and is the business ready? From a market perspective, we believe the answer is a resounding "Yes."

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Grace Matthews Chemical Index: Enterprise Value / EBITDA (Last 10 Years)

Enterprise Value / EBITDA



Source: Grace Matthews and Capital IQ

The Grace Matthews Chemical Index tracks the Enterprise Value / EBITDA ratios ("EV/EBITDA multiples" or "EBITDA multiples") of 100 publicly traded chemical companies that span multiple sub-sectors and geographies. The Index aggregates the latest reported financial data and stock prices, and tracks valuation trends and operating metrics across different industry sectors. Index averages are equally weighted, as opposed to weighting by market capitalization.

¹ See M2 Money Supply: <https://fred.stlouisfed.org/series/M2>

Select Industry Transactions

Transaction values in \$US millions					
Closed Date	Acquirer / Target	Target Description	Enterprise Value	EV / Sales*	EV / EBITDA*
Pending	TFL Ledertechnik / Lanxess (Organic Leather Chemicals Business)	Manufactures organic leather chemicals (Germany)	\$231		
Pending	OpenGate Capital / Solvay (North American and European Amphoteric Surfactant Business)	Three production sites supporting amphoteric product lines			
Pending	PPG / VersaFlex	Manufactures and supplies protective coatings, linings, and sealants			
Pending	One Rock Capital Partners / BASF (Kankakee, Illinois Manufacturing Site and Associated Business)	Produces vegetable-oil-based raw material sterols, vitamin E, anionic surfactants, and esters			
Pending	PPG / Tikkurila Oyj	Produces and sells paints for surface protection and decoration (Finland)	\$1,622	2.3x	14.5x
Pending	Trinseo / Arkema (PMMA Business)	Comprises chemicals manufacturing and selling of PMMAs (France)	\$1,360	2.2x	9.5x
Pending	SK Capital / Ipackchem	Designs and manufactures rigid plastic containers (France)			
Pending	Huntsman / Gabriel Performance Products	Manufactures specialty additives and epoxy curing agents	\$250	2.4x	11.0x
Pending	Cargill / International Flora Technologies	Produces and markets botanically-derived ingredients			
Pending	Ardian / ANGUS Chemical Company	Manufactures and distributes nitroalkanes and their derivatives	\$2,250	6.7x	
Pending	Covestro / Royal DSM (Resins & Functional Materials and Associated Businesses)	Comprises resins, optical fiber coatings, adhesives, and performance materials manufacturing operations (Netherlands)	\$1,820	1.5x	11.7x
Jan-21	Suez / Lanxess (Reverse Osmosis Membrane Business)	Produces membranes for industrial water treatment (Germany)			
Dec-20	PPG / Ennis-Flint	Manufactures and supplies pavement marking materials	\$1,150	1.9x	
Dec-20	Seal for Life Industries / Shawcor (Pipeline Performance Products Business)	Manufactures heat shrinkable sleeves, adhesives, and liquid coatings for pipeline joint protection	\$92	1.1x	
Dec-20	The Jordan Company / PQ Corporation (Potters Industries Segment)	Manufactures engineered glass materials	\$650	1.8x	8.4x
Dec-20	Arkema / Colorado Photopolymer Solutions	Develops resin formulations and photopolymer materials			
Dec-20	LyondellBasell Industries / Sasol (Louisiana Polyethylene Assets)	Comprises linear-low density polyethylene and ethane production operations			
Nov-20	Recochem / KOST USA	Manufactures, supplies, and markets antifreeze and functional fluids			
Nov-20	Croda / Iberchem	Manufactures and sells fragrances and flavors (Spain)	\$973	4.6x	21.6x
Nov-20	Evonik / Porocel	Manufactures activated alumina, inert bed supports, and specialty adsorbents	\$210	2.1x	9.1x
Nov-20	Pidilite / Huntsman (Advanced Materials Solutions)	Manufactures and sells adhesives and sealants (India)	\$283	5.3x	15.0x
Nov-20	Henkel / Momentive Performance Materials (Consumer Sealants Business)	Manufactures consumer sealants	\$204	1.8x	
Nov-20	Barentz / Maroon Group	Supplies specialty chemical and packaging products			
Oct-20	Veolia / Suez	Provider of waste and water treatment products and services (France)	\$29,173	1.4x	9.5x
Oct-20	AOC Materials / Ashland (Maleic Anhydride Manufacturing Facility)	Manufactures maleic anhydride industrial coatings	\$100		
Sep-20	Stepan / Clariant (Anionic Surfactant Business and Associated Sulfation Assets)	Manufactures surfactants (Mexico)			
Sep-20	PLZ Aeroscience / Custom-Pak Products	Manufactures and offers touch up paint and small container liquid packaging solutions			

Transaction values in \$US millions					
Closed Date	Acquirer / Target	Target Description	Enterprise Value	EV / Sales*	EV / EBITDA*
Sep-20	Akzo Nobel / Stahl (Performance Powder Coatings Activities)	Manufactures UV and thermally curing powders coatings for temperature-sensitive substrates (Netherlands)			
Aug-20	Bostik (Arkema) / Fixatti	Produces polymer sealants and coatings (Switzerland)			
Aug-20	Hexpol / MESGO	Manufactures and distributes compounding solutions (Italy)	\$236		
Jul-20	SK Capital / Techmer PM	Produces colors and additives for the plastics and fiber industries			
Jul-20	Materion / Optics Balzers	Produces optical thin-film components and coatings (Liechtenstein)	\$160	2.4x	12.0x
Jul-20	Sun Chemical / Sensient (Imaging Technologies and Inks Business)	Manufactures inks for digital inkjet printing technology			
Jun-20	The International Group / Rheogistics	Manufactures hydrocarbon wax-based additives and lubricant systems for rigid PVC			
Jun-20	Sika / Modern Waterproofing Group	Manufactures self-adhesive waterproofing membranes, synthetic roofing, and thermal insulation foams (Egypt)	\$33	1.1x	6.1x
Jun-20	H.I.G. Capital / USALCO	Manufactures aluminum-based chemicals			
May-20	SK Global Chemical / Arkema (Functional Polyolefins Business)	Manufacturing ethylene copolymers and terpolymers for the food packaging, cable, electronics, and coatings markets (France)	\$369	1.3x	
May-20	Givaudan / Indena (Cosmetics Business)	Manufactures cosmetic ingredients (Italy)			
May-20	Huntsman Corporation / Emerald Performance Materials (CVC Thermoset Specialties Business)	Manufactures specialty epoxy resins	\$306	2.7x	10.0x
Apr-20	Bodycote / Ellison Surface Technology	Manufactures thermal spray coatings and performance coating solutions	\$200	3.4x	16.7x
Apr-20	Synthomer / OMNOVA Solutions	Provides specialty solutions and performance materials	\$752	1.0x	10.6x
Apr-20	Tank Holdings / Tingue, Brown & Co. (Meese Business)	Rotomolds custom and proprietary plastic products			
Mar-20	DuBois Chemicals / Milacron (Cimcool Business)	Manufactures metalworking fluids	\$250		
Mar-20	The Riverside Company / National Flavors	Manufactures flavoring materials			
Mar-20	Daelim / Kraton Polymers (Cariflex Business Unit)	Manufactures isoprene rubber latex	\$530		13.6x
Feb-20	Huntsman Corporation / Icyne-Lapolla	Manufactures spray polyurethane foam insulation products (Canada)	\$346	1.5x	10.0x
Feb-20	One Rock Capital Partners / Innophos	Produces specialty ingredients with applications in food, health, nutrition, and industrial markets	\$1,004	1.3x	8.4x
Jan-20	Domo Chemicals / Solvay (Performance Chemicals Business)	Produces engineerign plastics (France)	\$557		
Jan-20	Milliken & Company / Borchers	Manufactures additives for colorants, paints, and printing inks			
Jan-20	Fuchs Petrolub / Nye Lubricants	Manufactures synthetic lubricants, thermal coupling compounds, and index-matching optical gels			
Jan-20	Indorama / Huntsman Corp. (Integrated Oxides and Derivatives Businesses)	Produces oxides and derivatives	\$2,006	1.0x	5.7x

Note: For transactions in which a less than 100% stake is acquired, enterprise value represents the implied EV as if a 100% stake were acquired. Enterprise values also include contingent consideration.

Grace Matthews: Select Chemicals and Materials Transactions

 <p>has been acquired by H.I.G. Capital's portfolio company</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>a wholly owned subsidiary of Tingle, Brown & Co. has been acquired by Olympus Partners' portfolio company</p> 
 <p>has sold its methylamines business to Belle Chemical Company, an affiliate of</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by Arsenal Capital Partners' portfolio company</p> 	 <p>has sold its Specialty Fluids business to</p> 
 <p>has divested its surfactants, thickeners and dispersants business to</p> <p>Tiarco, LLC</p> <p>a subsidiary of</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 
 <p>has been recapitalized by</p> 	 <p>has been acquired by The Jordan Company's portfolio company</p> 	 <p>and its subsidiaries</p> <p>GENESIS CUSTOM CHEMICAL BLENDING</p> <p>PANHANDLE ENERGY SERVICES LLC</p> <p>have been recapitalized by a chemicals-focused investor group</p>	 <p>has been recapitalized by</p> 
 <p>has been acquired by</p> 	 <p>has sold its subsidiary CiDRA Chemical Management Inc. (CCMI) to</p> 	 <p>has sold its Automated Fueling Stations business</p>  <p>to</p> 	 <p>has sold its global Polyolefin Catalysts business to</p> 

Grace Matthews Overview

Grace Matthews is recognized globally as a leader in transaction advisory services for manufacturers and distributors throughout the chemical and material value chain. Grace Matthews' clients include privately held businesses, private equity funds, and large, multinational corporations.

Grace Matthews' practice is global in scope, and focuses on several areas: sell-side transactions and divestitures for private companies, private equity holdings, and multinational corporations; buy-side work for large public companies, major multinationals, and sponsor-backed chemical platforms; leveraged transactions and recapitalizations, strategic advisory analysis, and transaction fairness opinions. Areas of expertise include:

- Adhesives, Sealants, Tapes
- Catalysts, Petrochemicals
- Construction Chemicals, Building Products
- Contract Manufacturing, Custom Synthesis
- Distribution, Equipment, Infrastructure
- Food Ingredients, Flavors, Fragrances
- High Purity, Electronic Chemicals
- Industrial Minerals, Inorganic Chemicals
- Intermediates, Industrial Chemicals
- Lubricants, Greases, Metalworking Fluids
- Oilfield & Water Treatment Chemicals
- Paints, Coatings, Inks
- Personal Care, Soaps, Medical Materials
- Plastics, Colorants, Additives
- Tolling, Private Label Products
- Additional Chemical Sectors

Grace Matthews is a privately held investment bank with successful chemical industry transactions dating back to the early 1990s. Grace Matthews principals have completed over 150 transactions involving global corporations. Our team approach is unique in investment banking, with a combination of extensive industrial, financial and M&A experience.

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Grace Matthews, Inc. (www.gracematthews.com) is an investment banking group providing merger, acquisition, and corporate finance advisory services for chemical companies both in the U.S. and internationally. Grace Matthews is global in scope and well known for its strong track record of success dating back to the early 1990s.

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