



M&A momentum

Expect a robust chemicals M&A market in 2021

Special feature from Grace Matthews



It is an understatement to say that much has happened over the course of the past year. We at Grace Matthews continue to appreciate that the Chemicals M&A market is active and highly dynamic. With this in mind, here are a few thoughts on what SOCMA members and specialty chemical companies can focus on in 2021 as they contemplate M&A in this market.

Before we dig deeper into our thoughts on 2021, a brief comment on what we saw last year. 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. The M&A market came to a halt at the onset of the pandemic before building

momentum late in the year. For nearly all businesses, 2020 brought with it a significant amount of uncertainty. For private business owners, in particular, the risks, both known and unknown, of owning, let alone selling, a business were brought to the forefront. Simply put, for many businesses, 2020 was a scary year. Yet based on our current projects and outlook for the near-term, combined with market momentum, we expect a robust Chemicals M&A market in 2021. Buyer appetite has proven to be surprisingly resilient, and in fact, in most instances today, we are seeing buyers more aggressive than they were pre-pandemic. You may be wondering – how did we transition from a year so scary to a year defined by a resilient and aggressive M&A market? To answer this question, it's important to better understand a few key trends we observed in 2020 that continue to drive M&A interest, and ultimately, activity in 2021.



Creative deal making is allowing buyers and sellers to overcome pandemic-driven obstacles. From virtual meetings to drone facility tours, M&A participants are thinking outside-the-box to navigate obstacles presented by COVID-19. In many ways, while the due diligence process during a transaction is as intense as ever, processes have become much more efficient (by necessity!), allowing successful transaction completions despite once-in-a-lifetime (hopefully) challenges.

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Strategic buyers are flexing their deal-making muscle. Public companies are turning to M&A as they try to justify increasing stock prices and trading multiples, and distance themselves from lackluster organic growth. Additionally, while the recovery for many businesses may have been slow and steady, the vast majority of public chemical companies are emerging from COVID-19 with stronger balance sheets, providing significant firepower for M&A. These buyers often have the inherent transactional advantage of synergy and strategic rationale – a strong, strategic fit allows buyers to more easily look past pandemic-driven performance hiccups and focus on the overall fit and purpose of the acquisition.

Increasing capital controlled by private equity funds, coupled with new urgency to pursue transactions, has resulted in a highly motivated private equity buyer pool. Many of these buyers found themselves focusing on internal portfolio issues and company management for a good portion of 2020. This has created pent-up demand and additional urgency for these funds to find investments in 2021 as they sit on record levels of “dry powder.”



Portfolio optimization within multinational strategics should result in continued carve-out activity in the marketplace. Grace Matthews believes multinational 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 as a result, we expect to see robust carve-out activity. Successful portfolio management is always front and center within the strategics we talk to, and the disruption caused by COVID-19 has made resource allocation for core operations a priority.

All of the factors above are contributing to a market that has become increasingly seller friendly – effectively, a continuation of the trend we saw leading up to 2020. However, it’s important to highlight that, although the M&A market is clearly primed for activity, there are a few critical business-related factors that need to be considered when contemplating a potential sale. Most importantly, business performance through the pandemic has become the single most critical diligence topic in a transaction process. Having a detailed understanding of the pullback (or benefit) that was experienced during the pandemic and how this impacts results moving forward has become THE critical item on a buyer’s M&A checklist. While every organization was impacted in some way by the pandemic, at its core, this question is trying to get at the sustainability of a company’s performance – put differently, what earnings is a buyer acquiring in a transaction and what is the outlook moving forward? Buyers are sophisticated enough to understand that a temporary pullback should not impede a transaction, and conversely, that a temporary “pop” in earnings does not necessarily mean that a business should receive a greater valuation. Sellers should be prepared to provide detail around the impact from COVID-19 and clearly articulate what it means for the business going forward.

Grace Matthews expects a significant amount of M&A activity over the next 12 months. The combination of capital-rich buyers looking to differentiate themselves, privately held businesses entertaining compelling inquiries to sell, and large strategics optimizing their portfolios creates a favorable mix for what has already been a strong start to 2021. Continued economic recovery amid the ongoing mass vaccine rollout should also provide a tailwind for this market momentum. 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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Kevin Yttre and Andrew Cardona are with Grace Matthews, an investment bank that exclusively offers M&A services for the chemicals and materials value chain. In 2020, Grace Matthews advised on 11 transaction closings, a record for our firm. We have successfully advised several SOCMA-member companies on sale processes in recent years and are pleased (and fortunate) to say that experience, persistence, and hard work, in concert with our clients, continues to generate successful closings and optimal process outcomes.



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