

Searching for Opportunities...

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As often noted of recent, the number of mid-sized independent coating companies, and those supplying raw materials to them, continues to diminish. While this decreases the obvious pool of potential coatings and materials supplier acquisition candidates, it has done nothing to diminish the appetite of those seeking to acquire them. Attempting to fill the void, while simultaneously increasing its impact, are private equity buyers. We are seeing fewer and fewer transactions in the coatings space involving sellers of multi-generational, family-owned businesses, and an increasing number of transactions from financially-backed platform companies executing a buy-and-build strategy. The velocity at which companies trade hands is also increasing, and private equity is pushing this pace.

One reason why private equity (PE) seems to be increasing transactions in the coatings space is the many benefits for owners. With PE transactions, owners are often provided a soft landing to selling their business where they can continue to remain active in operations. PE also allows owners to diversify their risk of having an over weighted amount of their personal net worth tied up in their business while still enjoying the upside of remaining invested in the asset they know best. With market tailwinds as they are, we have seen some meaningful “second bites of the apple” for sellers to private equity or private equity-owned businesses as well. Some of the notable current middle-market coatings platforms include Audax Group’s ICP, Huron Capital’s Valentus, and Tonka Bay Equity’s Fenix (formerly called Sierra). Additionally, there are dozens of other funds building or looking to build platforms in coatings and related materials.

While trying to keep up with the pace of play from PE buyers, the leaders in the coatings space continue to consummate their fair share of deals. The focus and motivations of PPG, Akzo Nobel, Sherwin Williams, Axalta and RPM appear to differ at present, however, one thing they have in common is that these coatings behemoths continue to trade at higher-than-normal valuations and inherently have growth already built into their stock price. As such, these businesses have tremendous pressure to use their balance sheet to find growth – acquisition being the quickest route to do so.

To take a deeper look into the coatings leaders and provide a prediction for their next M&A move:

- PPG has the healthiest balance sheet of the group and an appetite to do something meaningful (possibly another run at Akzo Nobel?).
- Akzo Nobel seems to be getting its feet back under itself with its new CEO and the ongoing divestiture of its specialty chemicals business.
- Sherwin Williams has to make good on the price paid for Valspar, and therefore it remains fairly focused on ensuring that the business is properly and thoughtfully integrated.
- Axalta continues to pursue opportunities to aggressively diversify away from automotive and has picked up some nice assets along the way.
- RPM continues to pursue smaller, safe acquisitions that it can drive through its extensive distribution channel.

As the industry continues to consolidate, buyers are digging deeper for acquisitions. With so many chasing so few stand-alone assets, proactively pursuing corporate carve-outs seems to be an area gaining increased focus. Finding assets nested within larger companies that can be peeled out, while challenging to execute, can provide substantial opportunities and upside for other strategics and PE-owned platforms. While doable, the complexities and lack of infrastructure transferring with most of these deals can make it economically unappealing to some private equity buyers without a current platform to roll them into.

While many believe that we are witnessing an end game to consolidation in coatings, I'm not certain I would call it that. The M&A activity in the coatings industry feels more like a very aggressive game of "go fish" going on out in the market, whereby everyone is looking to upgrade their hand by pushing hard to attract and acquire the assets that best align with their portfolio and strategy. However, there still remains opportunities for deal making to be had in the market, you may just have to dig a little deeper to find them.