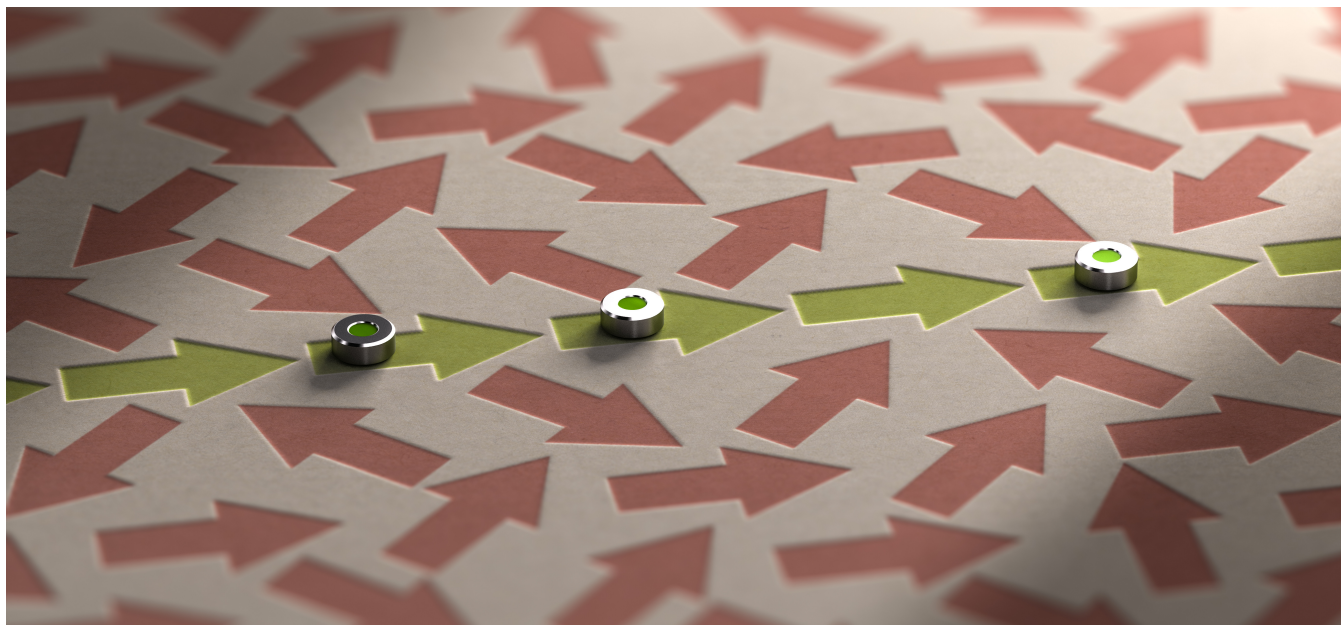


CHEMICAL INSIGHTS



Controlling the Chaos: Navigating the M&A Environment Thus Far in 2021

M&A activity has been accelerating for months: how buyers are changing the playbook to win in a highly competitive environment, and why preparation is key in a seller's market

In terms of announced deals, total deal value, and/or deal activity, M&A activity in the first quarter of 2021 was at or near record highs¹. Buyers, whether strategics, private equity firms, or privately held businesses, continue to have access to record levels of capital, and sellers, ranging from privately held businesses that navigated the wild swings of 2020 to corporate organizations looking to optimize portfolios by selling off non-core businesses, continue to explore strategic options. The controlled chaos of this M&A environment has created both opportunities, particularly for sellers seeking to optimize their exits, and challenges, particularly for buyers as they compete in a well-run process. At Grace Matthews, our expertise in tailoring processes to match our sell-side clients' needs and in positioning our buy-side clients to be 'front and center' has provided us a unique perspective on M&A thus far in 2021.

As a boutique investment bank focused on chemicals & materials M&A, our typical engagement involves sell-side advisory, in which we represent the shareholders of a business (privately held, private equity-backed, or corporate-owned) as it is being marketed. We also take on focused buy-side engagements (approximately 20-30% of our engagements), in which we represent a buyer seeking to purchase a target company either in a one-off discussion or in a formal sale process. These complementary services enable us to take learnings from one project, such as how buyers behave during a sell-side engagement we are running, and apply them to others, such as how we can best position our buy-side client during a competitive sale process.

In today's competitive market, deals can come down to a metaphorical matter of inches. Economics (most commonly, purchase price) is always a lever that can be pulled, but we have, through our processes or those we have participated in, witnessed buyers using other means to gain favor in the eyes of sellers. Below are a few of the observations that exemplify the competitive dynamics we are seeing.

"In today's competitive market, deals can come down to a metaphorical matter of inches."

¹ [Reuters: Global M&A sets first-quarter record as dealmakers shape post-COVID world](#)

Observation 1: Rather than casting a wide net, buyers are picking and choosing their spots

Rather than evaluating numerous potential opportunities (“casting a wide net”), we are seeing buyers more selectively utilizing internal resources to pursue a limited number of deals; in other words, they are spending more time on the deals they feel may be a strategic fit, and they are pursuing these more aggressively. By leaning in, these buyers are signaling to sellers that this deal is a priority.

For sellers, this may mean that the number of overall parties submitting a bid or expressing interest has decreased – buyers are no longer submitting half-hearted bids to “see if it sticks.” However, the number of parties willing to spend resources and pursue targets aggressively for longer into a process has increased – when buyers seem very interested today, we have found it to be increasingly “real.”

Observation 2: Buyers are more aggressively seeking to “front-run” processes

It is not uncommon for a buyer or a couple of buyers to be slightly ahead in a sale process; often, on the sell side, front-running a buyer can be helpful – sellers are able to learn from the diligence findings of this group while also understanding the Q&A they can expect with other buyers, all while increasing the probability that a deal gets done sooner (and perhaps at better terms), assuming the “right” group was allowed to get ahead.

What is unusual this year is the frequency and pace with which buyers are doing this. In some of the more extreme cases, we have seen groups execute purchase agreements on the dates that initial bids are due, which means these buyers would have been months (as opposed to weeks) ahead of other potential buyers.

The risk of allowing a buyer to front-run is the potential absence of leverage for the seller; however, this can be mitigated by sell-side diligence preparation, which provides sellers leverage by reducing the potential for diligence findings in late-stage discussions. To quote Vince Lombardi, “Everyone has a will to win, but not everyone has the will to prepare to win.” We believe sell-side preparation is key to success.

“The risk in allowing a buyer to ‘front-run’ is the potential absence of leverage...which can be mitigated by sell-side diligence preparation”

Observation 3: Buyers are jockeying for positioning with sellers and sellers' advisors

Even before a sale process, the level of inbound interest (emails, calls, handwritten letters) to business owners and management has reached a fever pitch. In M&A, you don’t get what you don’t ask for. Buyers are constantly looking for ways to get ahead of competitors in a sale process, and we are witnessing repeated, consistent requests for more detailed information earlier in the process to kickstart or close out diligence streams, more access to management, site visits earlier than usual, and so on.

Sellers should recognize that buyers want to win on the “intangibles,” and this often means that they are finding ways to demonstrate why they would be the best home for the business, have the best fit with management, move the fastest in diligence, and provide the highest level of certainty to close.

Observation 4: Buyers are involving senior decision-makers earlier in a process

There is always a healthy tension in terms of when senior decision makers (such as a CEO, President, Board of Directors, etc.) are updated and signed off on a transaction. On the one hand, sellers want to know that senior personnel in the buyer’s organization are aware of every step of the process and are supporting the deal in order to minimize the risk of a buyer changing its view of the target in the late stages of the process. On the other hand, deal teams in a buyer’s organization need to conduct the appropriate level of diligence to quantify deal-related risk before they can arrive at a fully vetted offer to present for senior leadership’s sign-off.

The concept of “internal sign-off” is often an ambiguous topic when buyers are explaining the decision-making process to sellers. Questions such as, “Has the Board of Directors been involved or approved this?” and “Do you have senior-level buy-in?” are important to alleviate any seller concerns of taking a buyer deep into discussions only to have said buyer bow out at the last minute.

We are seeing buyers involve these decision makers earlier and more frequently in a transaction, perhaps due to our first observation, where buyers are more focused on what they spend time on. Benefits of this approach include reducing misallocation of resources (spending weeks/months on a transaction only to see a final offer rejected internally) and increasing sellers’ willingness to support buyer diligence efforts (on the sell-side, we are encouraged when CEOs, Presidents, and/or Boards of Directors are supporting a transaction).

Summary and Looking Ahead

Overall, the chaotic nature of the M&A environment thus far in 2021 has created unique dynamics. While we expect this frenzied M&A activity to continue, we are keeping our eyes on the following items that may have varying degrees of impact on the economy and broader M&A environment in the next 12-24 months (and, perhaps, beyond):

Raw material shortages and price increases

- Throughout the chemicals & materials industry, our clients and other relationships are experiencing rising raw material costs and shortages as supply chains seek to recover from the volatility of 2020 and early 2021
- We will be watching to see the impact of price increases, both on the raw material side and downstream, on businesses as these increases roll through the broader supply chain

Tax law changes

- Discussion of tax law changes suggests that it is now a matter of when, not if, the tax rate on capital gains may increase
- Stating the obvious – the magnitude and timing of the tax law change will be the key factors in seeing how business owners evaluate engaging in a sale process versus waiting until there may be a reversal back to current rates

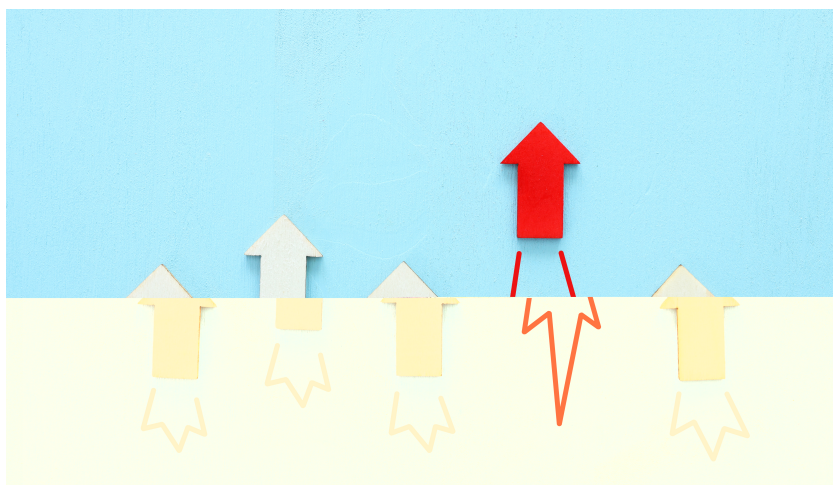
Interest rates, inflation, and the Fed

- We expect the rate of inflation to be a highly watched metric throughout 2021 and into 2022. As we know, measured inflation is a lagging indicator – inflation is already here
- While interest rates are only one factor in the M&A world, we would expect that the Fed potentially raising rates to keep inflation in check would have trickle down effects throughout the economy, including potentially tempering M&A valuations as markets are adjusting

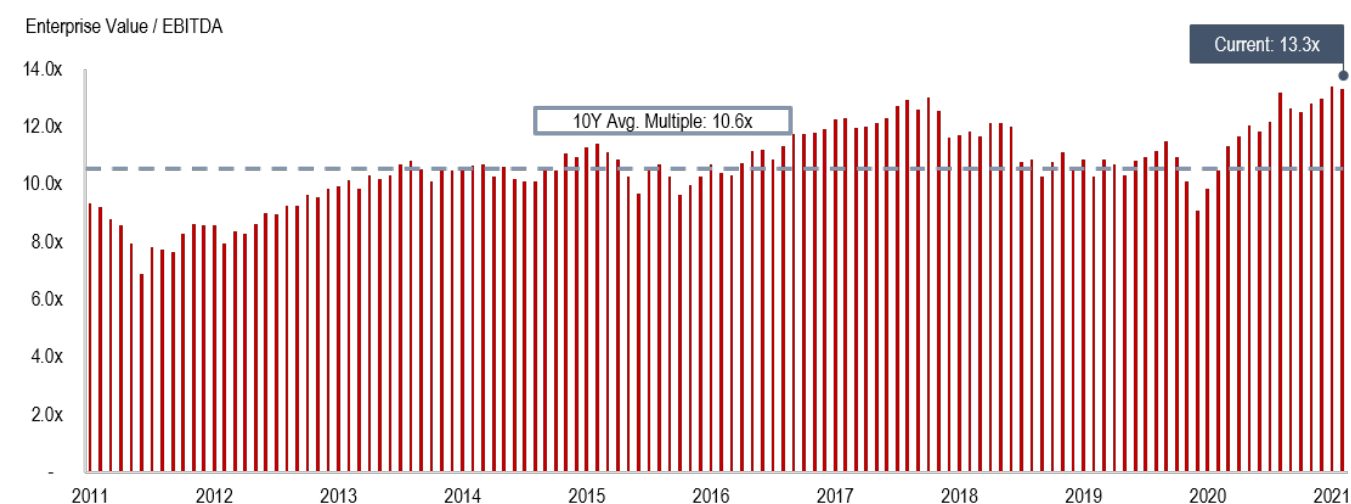
SPACs

- After dominating the news throughout 2020 and into Q1 2021, we will watch to see if SPACs continue as viable liquidity options in the middle-market or lower middle-market or if SPACs will become a trend of 2020 that slowly fades as they struggle to place the capital that was raised. Our view is that the companies that were best suited for SPACs may have been front-loaded in 2020

Regardless of what the remainder of 2021 has in store, we at Grace Matthews are prepared to navigate this chaotic environment, and we encourage you to reach out if we can help with your M&A needs.



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



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.

Select Industry Transactions

Transaction values in \$US millions					
Closed Date	Acquirer / Target	Target Description	Enterprise Value	EV / Sales*	EV / EBITDA*
Pending	PPG / Tikkurila	Produces and sells paints for surface protection and decoration (Finland)	\$1,810	2.6x	17.6x
Pending	Ardian / ANGUS Chemical Company	Manufactures and distributes nitroalkanes and their derivatives	\$2,250	6.7x	
Pending	LANXESS / Emerald Kalama Chemical	Provides consumer and industrial material solutions	\$1,075	2.5x	11.9x
Pending	Cerberus Capital & Koch Minerals & Trading / PQ Group (Performance Chemicals Business)	Produces sodium silicates, specialty silicas, and zeolites	\$1,100		9.4x
Pending	Royal DSM / Amyris (Flavor & Fragrance Bio-Based Intermediates Business)	Manufacturer of sustainable flavor and fragrance intermediates	\$300		
Pending	DuPont de Nemours / Laird Performance Materials	Offers electromagnetic shielding and thermal management components and solutions	\$2,300	4.9x	15.0x
Pending	Standard Industries / W. R. Grace	Produces catalysts, functional additives, and other specialty chemicals	\$6,436	3.6x	15.5x
Pending	Spectrum Brands / For Life Products	Manufactures cleaning and surface care products	\$300		
Pending	Prince International / Ferro	Manufacturer of functional coatings and color solutions	\$2,161	2.2x	12.4x
Pending	IMM Private Equity / SK Lubricants (40% Stake)	Manufactures and distributes lube base oil and lubricants (South Korea)	\$3,179	1.3x	6.7x
Pending	Synthos / Trinseo (Synthetic Rubber Business)	Manufactures synthetic rubber (Germany)	\$491		
Pending	SK Capital / Canlak & Valentus Specialty Chemicals	Manufactures wood and specialty coatings			
Pending	Hempel / Farrow & Ball	Manufactures and sells paints and wallpapers (UK)	\$708		

Transaction values in \$US millions					
Closed Date	Acquirer / Target	Target Description	Enterprise Value	EV / Sales*	EV / EBITDA*
Jun-21	One Rock Capital Partners / BASF (Kankakee, Illinois Manufacturing Site & Associated Business)	Produces vegetable-oil-based raw material sterols, vitamin E, anionic surfactants, and esters			
Jun-21	W. R. Grace / Albemarle (Fine Chemistry Services Business)	Comprises fine chemical manufacturing and services	\$570		
May-21	Innovative Chemical Products Group / Choice Adhesives	Manufactures and distributes custom formulated industrial adhesives			
May-21	The Jordan Company / Spartech	Produces engineered thermoplastic materials and specialty packaging products			
May-21	Trinseo / Arkema (PMMA Business)	Comprises chemicals manufacturing and selling of PMMAs (France)	\$1,360	2.2x	9.5x
Apr-21	OpenGate Capital / Solvay (North American & European Amphoteric Surfactant Business)	Produces amphoteric surfactants			
Apr-21	Schweitzer-Mauduit / Scapa Group	Manufactures bonding products and adhesive components (UK)	\$622	1.6x	14.4x
Apr-21	Birch Hill / Superior Plus (Specialty Chemicals Business)	Supplies sodium chlorate, chlor-alkali, and chlorine dioxide generators (Canada)	\$637		
Apr-21	Ascensus Specialties / Strem Chemicals	Global leader in high-purity, research-grade catalysts, ligands, organometallics, metal carbonyls, and CVD/ALD precursors			
Apr-21	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
Mar-21	Cargill / Precision Agricultural Services	Produces and sells crop nutrition and crop protection chemicals (Canada)			
Mar-21	Arsenal Capital / Applied Adhesives	Distributes adhesive solutions for packaging, paper converting, and woodworking industries			
Mar-21	McDermott / Lummus Technology (10% stake)	Develops and licenses chemical processing technologies for the hydrocarbon industry			
Mar-21	LANXESS / Intace	Formulator of fungicides and biocides (France)			
Feb-21	PPG / VersaFlex	Manufactures and supplies protective coatings, linings, and sealants			
Jan-21	Stapan / INVISTA (Aromatic Polyester Polyol Business & Associated Assets)	Aromatic polyester polyol business (Netherlands)	\$165	1.7x	
Jan-21	Huntsman / Gabriel Performance Products	Manufactures specialty additives and epoxy curing agents	\$250	2.4x	11.0x
Dec-20	PPG / Ennis-Flint	Manufactures and supplies pavement marking materials	\$1,150	1.9x	
Dec-20	The Jordan Company / PQ Corporation (Potters Industries Segment)	Manufactures engineered glass materials	\$650	1.8x	8.4x
Dec-20	Cargill / International Flora Technologies	Produces and markets botanically-derived ingredients			
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	
Oct-20	Veolia / Suez	Provider of waste and water treatment products and services (France)	\$29,173	1.4x	9.5x
Sep-20	PLZ Aeroscience / Custom-Pak Products	Manufactures and offers touch up paint and small container liquid packaging solutions			

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 Wind Point Partners' portfolio company</p> 	 <p>has sold its Colorado and New Mexico store locations to</p> 	 <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>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>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 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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