

CHEMICAL INSIGHTS



The Continued Rise of Environmental, Social, and Governance ("ESG") in the Chemicals & Materials Industry and Notable Observations from a Robust M&A Market

In our latest newsletter, we discuss the increasing emphasis on Environmental, Social, and Governance ("ESG") themes in the chemicals & materials industry. The exact definition and standards by which companies are judged on ESG considerations will continue to evolve, and as the focus on ESG continues to grow, we believe companies can create substantial value by highlighting to potential buyers and investors the ways in which they are integrating ESG considerations into their organizations. We recognize some companies, on the one hand, have already created formal internal ESG committees and policies while others are still assessing what it means for their organization; regardless of what your organization has done to address ESG considerations to this point, the topic is here to stay. We conclude with a few observations of other trends and notable developments that we are seeing in this continued frothy and extremely competitive M&A market.

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Evolving Definition of ESG Standards in the Chemicals & Materials Industry

First, what exactly does 'ESG' mean? Environmental, Social, and Governance standards represent a set of non-financial factors that, broadly speaking, describe how a company engages with its employees, its community, the environment, and more. Whereas financial reporting is (somewhat) straightforward in that it is regulated via reporting standards (for public companies) and/or accounting standards (for private companies), ESG standards have varied from one industry to the next and have yet to develop into a set of generally accepted metrics. Even though the exact definition of ESG remains unclear, the rising importance and focus on ESG has never been more apparent from both an operational and investing perspective. Consider the following:

- The mere mention of ESG on corporate earnings calls has skyrocketed in the past year. According to a PIMCO report from July 2021, ESG was mentioned on 19% of earning calls in 2019 - 2020; between May 2005 and May 2018, ESG was mentioned on less than 1% of calls¹

¹ MarketWatch ([link](#))

- In a review of S&P 500 companies' annual filings and incentive compensation plans from March 2020 - March 2021, more than half of the companies reported utilizing some type of ESG metric as a means to determine compensation for C-level executives²
- In a 2021 review of 2,000+ academic studies, McKinsey, one of the world's top consulting companies, concluded that better ESG scores translate to a 10% lower cost of capital: "This correlates to lower regulatory, environmental, and litigation risks associated with high ESG-scoring companies"³
- From private equity funds to the world's largest consulting firms, there is a labor "arms race" for ESG experts and professionals, and the strong demand for individuals in these positions is expected to continue for the next several years⁴

Grace Matthews spends 100% of its time in the chemicals and materials industry, which offers us a unique opportunity to evaluate the rising importance of ESG and its impact on companies in our space. While each category within Environmental, Social, and Governance could include a long list of key trends, the list below, based on one published by ADI Analytics, provides some examples of how chemicals & materials companies can evaluate themselves on ESG criteria.⁵

Environmental

- **Recyclability:** *Are products "green" and recyclable?*
- **Pollution and emissions:** *Are operations conducted in a manner that best minimizes pollution and emissions?*
- **Hazardous waste:** *Is the Company able to completely eliminate or reduce, as best possible, the generation of hazardous waste?*
- **Raw material consumption:** *To what extent are raw materials sustainably produced?*

Social

- **Product quality and safety:** *Do the Company's products and/or services have a history of quality and safety with its customers?*
- **Community relations:** *Does the local community view the Company as a good neighbor?*
- **Plant health and safety:** *Are the safety and health of employees valued in an industry that often requires complex operating processes?*

Governance

- **Regulatory requirements:** *Is the Company not only in compliance with current regulatory requirements but also being mindful of how future changes may impact growth/profitability/performance?*
- **Board oversight:** *Whether publicly traded or privately held, how are decisions made at the Company's highest levels?*
- **Compensation:** *Does the Company emphasize fair compensation and diversity across its workforce?*

How Companies Can Create Value by Emphasizing and Embracing ESG Standards

We are not saying that every company in the industry needs to know the answer to all of the above questions today. Rather, each organization will need to evaluate its needs in the context of available resources and investor goals. ESG, it seems, is a topic that is here to stay. And regardless of what a company is attempting to achieve in the near-term, beginning or continuing conversations around ESG-related topics can only help to position the company for continued competitiveness and success.

As ESG continues to gain importance in the chemicals & materials industry, we anticipate certain standards will be adopted to gauge how businesses within a given segment perform relative to each other on common ESG metrics. A set of standards will require materiality thresholds, and we expect the debate on where materiality thresholds should be set will be vigorous. On the one hand, standards without generally accepted materiality levels may make the standards themselves somewhat meaningless; on the other hand, those arguing for near-zero materiality thresholds may simply end up creating substantially more work for the accountants and lawyers without accomplishing the goal of increased transparency on these topics. We do expect that the adoption of such standards will enable companies to tell their own 'ESG story' and, in

² Harvard Law School, 2021 ESG & Incentives Report ([link](#))

³ Forbes, The Cost of Ignoring ESG ([link](#))

⁴ GreenBiz, Inside the War for ESG Talent ([link](#))

⁵ ADI Analytics, Top 10 ESG Trends in Chemicals ([link](#))

turn, will position these companies to create substantial value for their shareholders, investors, and/or in the eyes of potential acquirers.

While integrating appropriate ESG standards is clearly a sensible step for any business, we are seeing a marked increase in the number of companies positioning themselves as ESG-centric organizations. In doing so, these organizations are signaling to investors that they are committing resources to ESG efforts now because they believe it will best position the organization for success—both financially and otherwise—in the long-term. Acquirers are taking notice, and M&A has now become a lever to simultaneously grow the bottom line (such as EBITDA) while also expanding a buyer’s ESG footprint. For example, when Westlake Chemical Corporation, which describes itself as a global manufacturer and supplier of materials and innovative products that enhance life every day, announced its August 2021 acquisition of Dimex, a producer of consumer products manufactured from post-industrial-recycled materials, Westlake commented that the “... pending acquisition of Dimex underscores the company’s longstanding commitment to stewardship of the environment and recycling and to taking actions that contribute to a sustainable, circular economy.”⁶

For business owners that are contemplating a sale process in the near or medium-term, we would recommend considering how your company fares relative to peers on ESG topics that are most relevant to you. For example, in M&A processes, environmental diligence has always been a key workstream given the nature of the chemicals & materials industry—we, and our clients, expect environmental-focused questions such as ‘Does the Company have any documented environmental history?’ and ‘Are there any risks of changing regulations impacting demand for the Company’s products?’ Increasingly, though, we are seeing other ESG-related topics come up in discussions between buyers and sellers, such as ‘Is the Company in good standing with its community?’ and ‘How sustainable is the raw material chain for the Company’s products?’ Whether a sale process would be focused on financial (private equity) or strategic acquirers, we are seeing firsthand that buyers, individual and institutional investors, and limited partners (“LPs”) care about ESG, and we foresee an increasing premium being placed on the companies that can best articulate their ESG advantages relative to competitors.

Select Recently Announced Grace Matthews Transactions

 <p>Discover the Quality within</p> <p>has been acquired by</p> 	 <p>has been acquired by Wind Point Partners' portfolio company</p> 
 <p>has been acquired by H.I.G. Capital's portfolio company</p> 	 <p>has sold its Colorado and New Mexico store locations to</p> 

Recent ESG Commentary From Around The Industry

"Our unwavering commitment to developing and delivering the paints and coatings that will create solutions today for a more sustainable tomorrow is backed by key ESG priority areas, including operating with integrity, preserving and protecting the environment and communities in which we operate, developing PPG people, and ensuring that our workforce is inclusive and representative of our diverse global customer base."

- VP of Global Sustainability, PPG



"Across the chemical industry there is increased focus on natural, renewable, biodegradable, recyclable products...Customer, consumer, and investor focus on sustainability and ESG (Environment, Social and Governance) is driving the chemical industry to set more ambitious goals and innovate with a conscience for the future."

- Director of Environmental Health, Safety and Sustainability, Ashland



"As we grow 3M, we will lead in environmental stewardship, social equity and justice, and corporate governance. Our investments will make us more effective and efficient and drive growth."

- Chairman and CEO, 3M



"The shift toward ethical investing reflects the growing importance to incorporate ESG data into a company's strategy to create long-term shareholder value."

- Solvay, Investor Relations, ESG Information



⁶ BusinessWire, Westlake to Acquire Dimex ([link](#))

Recent ESG-Focused Industry Transactions

Date	Buyer / Target	Target Description	ESG-Driven Transaction Thesis
Pending	Arkema / Agiplast	Specializes in regeneration of high-performance polymers and recycling technologies	<i>Supports Arkema's CSR (Corporate Social Responsibility) and sustainable growth strategy, in particular the transition to circular economy</i>
Sep-21	Versalis (Eni) / Ecoplastics	Specializes in recovery, recycling, and transforming chains of polymers	<i>Accelerates Versalis' strategic involvement in renewable chemicals and plastic recycling technologies</i>
Sep-21	Westlake Chemical / Dimex	Produces consumer products made from post-industrial-recycled materials	<i>Underscores Westlake's commitment to environmental and recycling stewardship</i>
Jul-21	Sika / American Hydrotech	Manufactures green waterproofing and roofing products	<i>Strengthens Sika's sustainability focus and position in green energy</i>
Jul-21	BASF / Zodiac Enterprises	Recycles precious metals from industrial scrap, primarily chemical catalysts	<i>Expands BASF's precious metal recycling operations, enabling circular economy</i>
Jun-21	Indorama / CarbonLite (select assets)	Recycled polyethylene terephthalate facility	<i>Enhances Indorama's approach to sustainability, building a circular economy for PET bottles</i>
Dec-20	LyondellBasell and Suez / Tivaco	Engages in the processing of production scrap and purified post-consumer waste	<i>Accelerates use of circular polymers, supporting key sustainability initiatives towards eliminating plastic waste</i>
Oct-20	BP Energy Partners / Environmental Services	Provides environmental compliance and performance support services for the Energy	<i>Bolsters BP's portfolio of environmental services and testing companies to achieve strategic ESG policy goals</i>
Jul-20	Mitsubishi Chemical / Carbonxt and CFK Valley Stade Recycling	Two carbon fiber recycling companies	<i>Furtheres MCC's in-house recycling capabilities, an important step towards a circular economy model of production</i>

A Robust M&A Market Continues into Q4 2021: Select Observations

Heading into the fourth quarter of 2021, the M&A environment remains highly competitive and frothy, and we see no signs of this slowing down. Below are select observations as we evaluate the current market and possible changes in the months ahead.

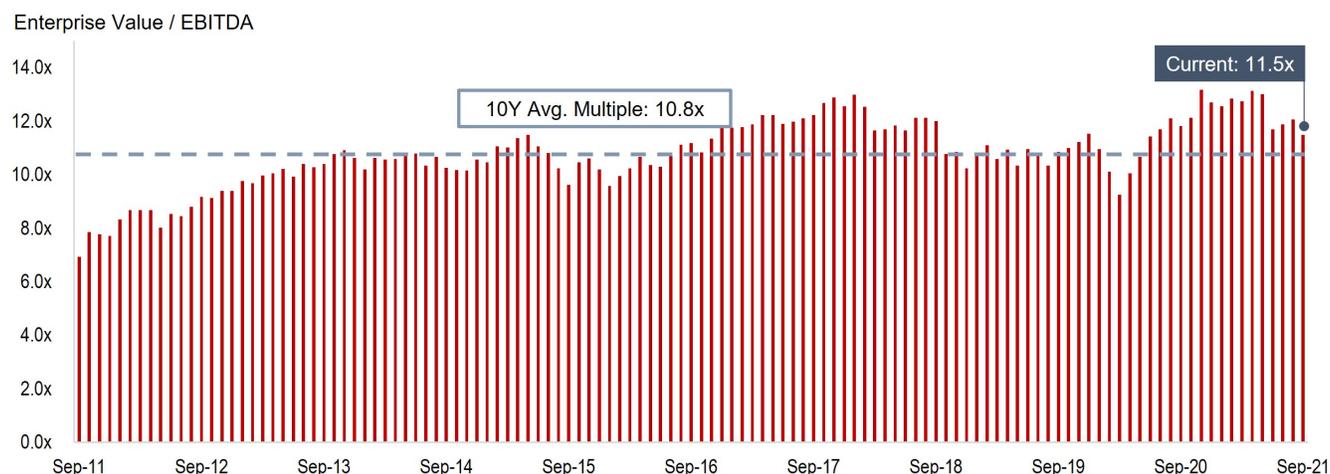
Notable observations:

- Buyers continuing to “pick their spots” for the highest-potential targets – as we’ve discussed in [previous newsletters](#), buyers continue to have limited bandwidth due to the number of M&A opportunities in the market; as a result, we are seeing buyers continuing to focus their resources on the highest-potential opportunities for their organizations (in some instances, buyers not wanting to lose what they view as a ‘high-potential’ deal has created favorable valuation outcomes)
 - We expect this dynamic may soften heading into Q1 2022 given deal volume may slow slightly heading into the new year. This could create a favorable dynamic (buyers with more M&A capacity) for business owners seeking to begin a process at the start of the year
- Tax impact – while potential capital gains tax changes will likely result in an unusually high level of deals closing in Q4 of this year, recent news suggests that the capital gains tax increase may not be as significantly adverse for business owners as initially anticipated
 - For businesses contemplating a sale in the near-term, another year (or more) of growth may more than offset any potential tax increases
- Tightness in third-party diligence provider market – we have noticed and heard anecdotally that third-party diligence providers are experiencing historically high demand for their services, leading to longer project times and/or periods of unavailability
 - As it relates to a process, whether on the buy-side or sell-side, we suggest planning ahead whenever possible and getting started on these workstreams sooner to avoid delays; moreover, buyers that can clearly communicate they have lined up advisors with availability to conduct diligence in a timely fashion should be viewed favorably
- Supply chain challenges and labor shortages have become the norm rather than the exception – and we expect this to continue into 2022
 - For potential sellers who are also experiencing supply chain and/or labor disruptions, being able to quantify and articulate the commercial impact of any disruptions will be key to positioning these items as one-time or short-term in nature

"We expect deal volume to remain robust in Q4 2021...and the momentum of the strong M&A markets will carry into 2022."

The M&A markets have been incredibly strong, despite certain challenges discussed above and the obvious fact that the world continues to battle the COVID-19 pandemic. We expect deal volume to remain robust in Q4 2021, and we believe the momentum of the strong M&A markets will carry into 2022, which will create opportunities for both buyers and sellers.

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



Source: Grace Matthews and Capital IQ

The Grace Matthews Chemical Index tracks the Enterprise Value / EBITDA ratios ("EV/EBITDA multiples" or "EBITDA multiples") of 99 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	Givaudan / DDW, The Color House	Provides color solutions for food and beverage manufacturers	-	-	-	
Pending	Prince International / Ferro	Manufactures functional coatings and color solutions	\$2,161	2.2x	12.4x	
Pending	Synthos / Synthetic Rubber Business of Trinseo	Manufactures synthetic rubber (Germany)	\$491	-	-	
Pending	DL Chemical / Kraton	Produces specialty polymers and performance products	\$2,497	1.5x	8.6x	
Pending	Arkema / Performance Adhesives Business of Ashland	Manufactures pressure-sensitive, structural assembly, and laminating adhesives	\$1,650	4.6x	20.1x	
Pending	Platinum Equity / Solenis	Produces specialty chemicals for water intensive industrial operations	\$5,250	-	-	
Pending	PTTGC / Allnex	Manufactures coatings resins (Germany)	\$4,750	2.0x	12.2x	
Pending	Materion / Electronic Materials Business of H.C. Starck	Provides high purity tantalum thin film materials	\$380	-	13.0x	
Pending	Sherwin-Williams / Specialty Polymers	Manufactures and develops water-based polymers	-	-	-	
Pending	LANXESS / Microbial Control Business of International Flavors & Fragrances	Provides preservation and hygiene solutions	\$1,300	2.9x	13.0x	
Pending	Indorama / Oxiteno	Produces ethylene oxide and its derivatives (Brazil)	\$717	-	8.1x	
Pending	Vertellus / KCl and Vaccine Adjuvants Businesses of Chemtrade	Manufactures specialty pharmaceutical ingredients (Canada)	\$155	-	11.1x	
Oct-21	Prinova / The Ingredient House	Supplies sweeteners, polyols, and other specialty ingredients	-	-	-	
Oct-21	Verdant Specialty Solutions / Baze Chemical	Manufactures ethoxylate specialty chemicals	-	-	-	
Sep-21	USALCO / Water Treatment Chemical Business of ALTVIA	Comprises chemical manufacturing business facility for water treatment	-	-	-	
Sep-21	Standard Industries / W. R. Grace	Produces catalysts, functional additives, and other specialty chemicals	\$6,436	3.6x	15.5x	
Sep-21	Silgan / Gateway Plastics	Produces injection molded plastic packaging solutions	\$485	-	-	

Transaction values in \$US millions

Closed Date	Acquirer / Target	Target Description	Enterprise Value	EV / Sales*	EV / EBITDA*
Sep-21	Axalta / U-POL	Manufactures automotive refinishing products (UK)	\$589	4.0x	15.5x
Sep-21	Hempel / Farrow & Ball	Manufactures and sells paints and wallpapers (UK)	\$708	-	-
Sep-21	Trinseo / Aristech Surfaces	Manufactures acrylic and architectural resin sheets	\$270	-	-
Sep-21	Carlisle / Henry Company	Provides building envelope solutions	\$1,575	3.1x	13.2x
Aug-21	Robertet / Astier Demarest	Distributes natural, organic, and synthetic aromatic source materials (France)	-	-	-
Aug-21	LANXESS / Emerald Kalama Chemical	Provides consumer and industrial material solutions	\$1,075	2.5x	11.9x
Aug-21	Cerberus Capital & Koch / Performance Chemicals Business of PQ Group	Produces sodium silicates, specialty silicas, and zeolites	\$1,100	-	9.4x
Jul-21	IMM Private Equity / SK Lubricants (40% Stake)	Manufactures and distributes lube base oil and lubricants (South Korea)	\$3,179	1.3x	6.7x
Jul-21	Wind Point Advisors & New Mountain Capital / Ascensus Specialties	Manufactures sodium borohydride and high-purity research-grade chemicals	-	-	-
Jul-21	DuPont de Nemours / Laird Performance Materials	Offers electromagnetic shielding and thermal management components and solutions	\$2,300	4.9x	15.0x
Jun-21	PPG / Tikkurila	Produces and sells paints for surface protection and decoration (Finland)	\$1,810	2.6x	17.6x
Jun-21	One Rock Capital Partners / Kankakee, IL Manufacturing Site & Associated Business of BASF	Produces vegetable-oil-based raw material sterols, vitamin E, anionic surfactants, and esters	-	-	-
Jun-21	W. R. Grace / Fine Chemistry Services Business of Albemarle	Produces custom fine chemicals	\$570	-	-
May-21	Spectrum Brands / For Life Products	Manufactures cleaning and surface care products	\$300	-	-
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 / PMMA Business of Arkema	Manufactures PMMAs for the auto, construction, display, and sanitary ware markets (France)	\$1,360	2.2x	9.5x
Apr-21	OpenGate Capital / North American & European Amphoteric Surfactant Business of Solvay	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 / Specialty Chemicals Business of Superior Plus	Supplies sodium chlorate, chlor-alkali, and chlorine dioxide generators (Canada)	\$637	-	-
Apr-21	Ascensus Specialties / Strem Chemicals	Manufactures high-purity, research-grade catalysts, ligands, organometallics, metal carbonyls, and CVD/ALD precursors	-	-	-
Apr-21	Covestro / Resins & Functional Materials and Associated Businesses of Royal DMS	Manufactures resins, optical fiber coatings, adhesives, and performance materials (Netherlands)	\$1,820	1.5x	11.7x
Mar-21	Royal DSM / Flavor & Fragrance Bio-Based Intermediates Business of Amyris	Manufactures sustainable flavor and fragrance intermediates	\$300	-	-
Mar-21	Cargill / Precision Agricultural Services	Produces crop nutrition and 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	Formulates fungicides and biocides (France)	-	-	-
Feb-21	PPG / VersaFlex	Manufactures and supplies protective coatings, linings, and sealants	-	-	-
Jan-21	Stepan / Aromatic Polyester Polyol Business & Associated Assets of INVISTA	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

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>the ingredient house</p> <p><i>Discover the Quality within</i></p> <p>has been acquired by</p> 	 <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>and its subsidiaries</p>   <p>have been recapitalized by a chemicals-focused investor group</p>
 <p>has been acquired by The Jordan Company's portfolio company</p> 	 <p>has been recapitalized by</p> 	 <p>has been acquired by</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.

Contact Our Team

John Beagle

Chairman, Co-Founder
jbeagle@gracematthews.com

Kevin Yttre

President, Managing Director
kyttre@gracematthews.com

Ben Scharff

Managing Director
bscharff@gracematthews.com

Andy Hinz

Managing Director
ahinz@gracematthews.com

Doug Mitman

Co-Founder, Senior Advisor
dmitman@gracematthews.com

Bridget Spaulding

CFO
bspaulding@gracematthews.com

Jon Glapa

Director
jglapa@gracematthews.com

Andrew Cardona

Director
acardona@gracematthews.com

Eric Sabelhaus

Director
esabelhaus@gracematthews.com

Tom Osborne

Senior Executive
tosborne@gracematthews.com

Michelle Tveten

Marketing Director
mtveten@gracematthews.com

Chris Hayes

Associate
chayes@gracematthews.com

Matt Stouder

Associate
mstouder@gracematthews.com

Courtney Browne

Analyst
cbrowne@gracematthews.com

Sam French

Analyst
sfrench@gracematthews.com

Andres Fernandes

Analyst
afernandes@gracematthews.com

Rene Kinkade

Analyst
rkinkade@gracematthews.com

Jack Chandler

Analyst
jchandler@gracematthews.com

Katie Long

Office Manager
klong@gracematthews.com

Headquarters

833 East Michigan Avenue
Suite 1420
Milwaukee, WI 53202
414.278.1120
www.gracematthews.com



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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