IHS Chemical Week

Big distributors turning to public markets

3:04 PM MDT | May 23, 2016 | —Vincent Valk

Four of the biggest names in chemical distribution—Brenntag, IMCD, Nexeo, and Univar—have engaged in transactions that result in all four companies being publicly traded following a period of private equity ownership. Univar went public last year, although private equity firm Clayton, Dubilier & Rice still owns a 29.4% stake, and Brenntag and IMCD went public in 2010 and 2014, respectively. Nexeo agreed in March 2016 to be acquired by WL Ross Holding (WLRH), a special-purpose acquisition company (SPAC) controlled by billionaire investor Wilbur Ross.

Changes in the chemical distribution sector have made distributors attractive as publicly traded entities, bankers say. The trend toward outsourcing on the part of manufacturers, accelerated by the Great Recession, means that distributors have taken on a bigger role in chemical industry supply chains and even in innovation. “Distributors are playing a bigger role than in the past … and once that was done it was tough to put the genie back in the bottle,” says Andy Hinz, director with Grace Matthews (Milwaukee). “This has increased the inherent value of chemical distributors.”

Publicly listed distributors do trade at solid multiples of earnings, but distributors typically run low margins. These low margins make them unattractive as components within higher-margin specialty chemical businesses, says Telly Zachariades, partner with The Valence Group (New York). However, despite the low margins, distributors typically generate strong and predictable cash flows, making them attractive to both private equity firms and public markets. “Usually private equity firms buy them from another corporate owner or have taken them private if already public and undertake a series of rollups because there is a lot of efficiency in having greater scale in distribution,” Zachariades says.

M&A is likely to remain commonplace in distribution because the sector is fragmented and large firms can grow quite easily by adding new volume to existing infrastructure. The recent initial public offerings help provide liquidity for further acquisitions by Univar, Brenntag, IMCD, and, soon, Nexeo—all of which have been acquisitive. “IPOs are a way to raise cash to reduce debt levels [from leveraged buyouts] and provide additional liquidity to fund acquisitions,” Hinz says.

However, large M&A deals seem likely to become less common simply because the number of large distributors is shrinking. “Cross-border deals, such as Azelis’s acquisition of Koda …you could still see that,” Hinz says. Medium-size regional players could be strong acquisition targets, but the top firms are mature, publicly traded, and likely to be the ones acquiring, he adds.

Scale is also helpful for going public, and the Koda acquisition is likely a step toward an IPO for Azelis, sources say. Azelis is owned by private equity firm Apax Partners (London).

Market conditions can still hinder firms seeking IPOs. Equity markets have improved in recent weeks, but the stock market slump from last summer to the first quarter of this year may have driven the Nexeo-WLRH deal. SPACs such as WLRH have two years to find acquisitions or they lose their investment and must return their funds to investors, and WLRH’s two years would have been up this summer. “That did not leave lots of time from when the transaction was initiated late last year. WLRH was looking for the right-size deal, and [private equity owner] TPG wanted to take Nexo public,” Zachariades says.