

Life Imitates Art

By Ben Scharff

Oscar Wilde’s words have been rattling around my head over the past few weeks as both *Dear Evan Hansen* and *Hamilton* drew crowds across the nation. As I sat in the crowd watching, I couldn’t help but notice the similarities — or perhaps more notably, the differences — between these award-winning performances and what we are currently seeing play out in the lubricants and greases industry.

Unlike these musicals drawing large crowds each week or some of the Nasdaq-style industries, we don’t necessarily see the benefit of a rising tide buoying the prospects for players in the lubricants market. Growth requires constant, disciplined execution to generate wins for new customers, technologies or applications. Most industry discussions, while attempting to convey an air of optimism, invariably carry an underlying tone of negativity or concern regarding the state and prospects of our industry moving forward. It is easy to fall into this line of thinking as we look at the continued deceleration of global growth, trade tensions, material input fluctuations, the emergence of electric vehicles and the unpredictable regulatory environment.

Despite these headwinds, many companies continue to find ways to innovate, differentiate and drive profitable growth. As such, the lubricants industry is filled with opportunities. For this reason, there remains significant interest in allocating additional capital into this sector.

YOU WILL BE FOUND

Most business owners maintain a file of inbound inquiries for the potential



acquisition of their company. The pace of these inquiries continues to accelerate, as we appear to be somewhere in the middle innings of industry consolidation for distributors and the early innings for formulators.

While industry participants remain a strong and viable buyer option, private equity buyers continue to push the pace. The number of private equity deals has steadily risen in the U.S. over the past 10 years, from

roughly 1,900 in 2009 to over 5,000 in the past 12 months. Of these transactions, approximately two-thirds are add-on deals — meaning that private equity is acquiring a business to add it on to a previous acquisition. In the chemical industry this past year, over 60% of companies sold were to private equity buyers. As a chemicals investment banking group, we see this dynamic playing out in lubricants as well.



Anecdotally, we have witnessed a marked increase in the number of inbound inquiries we receive at Grace Matthews from private equity funds looking to find a platform in this space. One recent notable example is Altas Partners' acquisition of DuBois Chemical. Having previously been owned by the Jordan Co., DuBois now has a new growth-oriented partner and a charter to go out and pursue inorganic growth opportunities. DuBois has a broad

platform of products in lubricants, metalworking fluids, cleaners, water treatment and other specialty chemicals. The diverse nature of its business provides many opportunities of pursuit for its new owners.

In looking at the strategic buyer universe, there are other quasi-recent transaction examples of note. After two years, the Quaker Houghton transaction finally closed in August. Also, FUCHS Group recently signed an agreement to acquire Massachusetts-based Nye Lubricants. The latter is a clear display of a strategic buyer stepping up to acquire a stellar business with strong technology and growth potential. Nye had been high on the target list of many strategic buyers and private equity firms alike. In addition to the acquisitions of Nulon Products and Comercial Pacific, FUCHS again demonstrates its willingness to aggressively pursue good businesses.

WHEN TO NOT THROW AWAY YOUR SHOT

While there exist record levels of capital and acquisition interest from both strategic buyers and private equity firms, I tend to agree with *Hamilton*: "... and I'm not throwing away my shot."

Most business owners will generally sell their business once in their lifetime. Many of the owners that we spoke with at ILMA's Annual Meeting are beginning to realize the necessity of giving serious thought on how to optimally position their companies to increase value and optionality in a sale process. As such, they recognize the importance of being proactive versus reactive when looking to monetize the value they have created within their companies.

Spending time upfront to understand both value enhancers and value detractors, and then appropriately managing each, can allow an owner to better capture value and maintain certainty through the transaction process. For instance, focusing the business and marketing materials on the specialty nature of your operations can be a strong value enhancer. In the public markets today, publicly traded specialty chemical businesses are valued at approximately 12.7 times earnings before interest, taxes, depreciation and amortization (EBITDA) versus 7.8 times EBITDA for commodity chemicals businesses, which is an approximately five-times difference. This is the reason that most companies are trying to drive growth in and position, or reposition, themselves as specialty chemical companies. To ensure this is done accurately, investing the time with the appropriate advisers now can ensure you find and extract value while limiting your downside detractors for when you are ready to go to market.

"Dear Evan Hansen, today is going to be a great day and here's why: because today at least you're you, and, well, that's enough." In today's market, there is a buyer for every business. You can optimize your outcome, though, by being proactive and prepared upfront. For those who choose not to prepare, I fear that, as Wilde said, "you will never be satisfied ..."



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