INSIGHT: Signs point to busy chem mid-market M&A despite volatility

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HOUSTON (ICIS)--Despite recent volatility, chemical mergers and acquisitions (M&A) should remain active in 2019 for deals worth less than $500m, an investment banker said.

The past year saw a continuation of the trends that contributed to deal-making for the past few years, said Kevin Yttre, president and managing director of Grace Matthews, an investment bank that concentrates on chemical mid-market deals of less than $500m.

Companies remain eager to develop a coherent collection of businesses, pursuing those that fit and discarding those that differ too significantly.

"Today's CEOs are portfolio managers," Yttre said.

If a business is more valuable under different ownership, then a company will seek to sell it, Yttre said.

The chemical M&A market remains a seller's one, and buyers need to adopt creative tactics if they wish to successfully acquire a company, Yttre said.

Many private-equity companies continue to concentrate on the speed that they can complete a deal. In some cases, they are conducting due diligence ahead of time and completing other steps that will ensure sellers that they are low-risk buyers that can quickly close on the deal.

Among strategic buyers, some are taking aggressive steps to pursue an acquisition once they identify a desirable business, Yttre said.

Looking ahead, Yttre acknowledged the recent volatility in markets and the concerns about growth.

But when it comes to concrete examples of this slowing down M&A, it has yet to manifest itself into the middle-market deals, Yttre said.

The investment bank itself is working on three carve-out deals, and it is about to start on a few more, Yttre said. "We are starting the year here marketing some very, very good businesses. We are starting in a great spot."

Citing a recent report by the American Chemistry Council (ACC), Yttre said that industry fundamentals are still strong. "For the most part, companies are doing well," he said. There is still a shortage of high-quality businesses that are up for sale.

Still, companies have many reasons to be wary.

In mid-December, West Texas Intermediate (WTI) fell below $50/bbl. Low oil prices depress petrochemical prices and drag down the margins of US-based producers.

US house and automobile sales are slowing down. Investors worry about inverted yield curves and rising interest rates.

Other parts of the world are showing undisputed signs of slowing down.

Stock markets have reflected this, with indices in the US repeatedly slipping in and out of corrections during the last months of the year.

The lower valuations can have contrasting effects on M&A, Yttre said.

The uncertainty entailed by falling share prices could cause companies to pause before pursuing deals, he said. Yttre sees this trend playing out among mega-mergers.

On the other hand, lower valuations could encourage companies to make bids on businesses that they had been eager to acquire, he said.

"You can argue it both ways," Yttre said.

More confounding is whether the current rough patch will persist or whether it will work itself out.

Throughout the long economic expansion, markets have fallen sharply on worries only to recover and continue expanding.

Over the years, each dip in the stock market corresponds to a concern about the economy, be it higher interest rates, a slowdown in China or falling oil prices.

Early this year it was trade disputes. Now, it is slower growth.

But economists surveyed by the National Association for Business Economics (NABE) expect US GDP to continue expanding in 2019, albeit at a slower pace.

The Federal Reserve's latest projections also call for continued growth.

By **Al Greenwood**