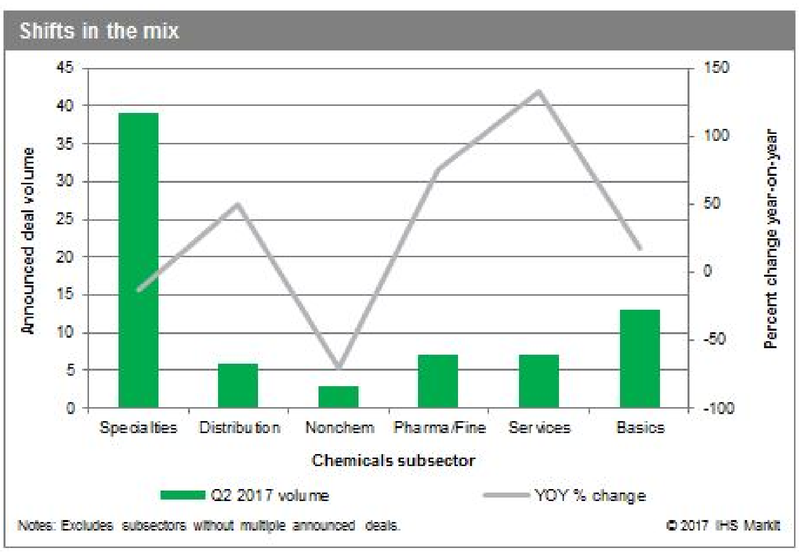
Chemical Week

M&A quarterly briefing: Bull run continues in second quarter

19:18 PM | August 7, 2017 | Vincent Valk

Volumes	Values
78	$42.2bn

For anyone searching for a sign that the long bull market in chemicals M&A is about to come to an end, the second quarter offered little evidence. While announced volumes were down slightly during the quarter—about 13% year on year (YOY)—transaction dollar values jumped to $44.2 billion. This marks a shift from the first quarter, when a YOY drop in deal values was mainly attributable to the $43-billion ChemChina-Syngenta merger, announced in February 2016 (and closed in June).



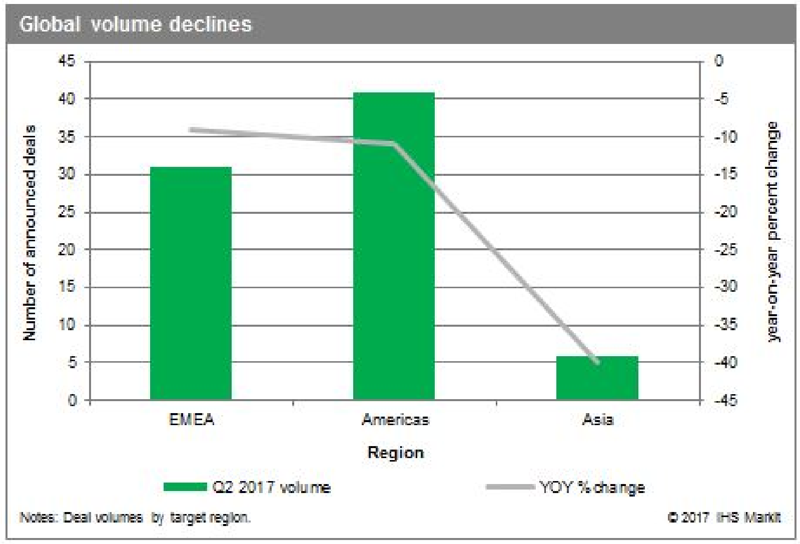
The $20-billion merger of Clariant and Huntsman, announced in May, boosted second-quarter figures. But deal activity was healthy even excluding Clariant-Huntsman. Second-quarter deal values totaled about $24.2 billion without Clariant-Huntsman, up 37% YOY. Of the 27 announced transactions for which *CW* has deal values, excluding Clariant-Huntsman, the average size was $866 million, up 42% YOY.

Buyers continue to pay big premiums. Announced deal values averaged 1.6 times (x) target revenue during the second quarter, compared with about 1x revenue last year. While EBITDA multiples were available for only a handful of second-quarter deals, all of them came in at around 10x or higher.

Investment bank Scott-Macon (New York) has found the median EBITDA multiple for specialty chemical transactions announced but not closed in the first half was 12.3x. Multiples were relatively low for specialties deals that closed during the first half—at 8.4x, compared with a 10-year median of 9.8x. For commodities deals, the figure was higher, at 8.6x, compared with a 10-year median of 6.9x. The decline for closed specialties deals looks like an aberration, notes Allan Benton, vice chairman and group head/chemicals at Scott-Macon.

The market still tilts toward sellers, bankers say. “My view is, very simply, that demand outweighs supply,” says Kevin Yttre, managing director with Grace Matthews (Milwaukee). “A good, well-positioned, chemicals supplier is going to receive a lot of interest.” Bankers say that public-company

CEOs often face pressure to make acquisitions as a way to jump-start growth, a view reinforced by second-quarter earnings calls, where M&A was again a big subject of discussion. This interest goes beyond the megadeals that have made big headlines—the "acquisition pipeline," which is typically dominated by smaller transactions, was a common theme. One banker says there is concern about high multiples but CEOs sense that M&A is expected, and is a crucial way to find growth amid persistently sluggish volumes. Another notes that many companies are targeting EBITDA margins in the twenty-plus percent range, and that portfolio reshuffling is the fastest—often the only—way to get there.



Activity is expected to remain strong for the rest of the year. Bankers say pitch activity is robust. The megadeals that will be closing over the next year or so are likely to result in more divestitures, as newly merged companies settle on a strategic direction. While there may be fewer megadeals to go around—and 2017's year-to-date deal value remains about 30% off 2016's pace despite the second quarter—it looks like there are many pieces yet to move.

Top 5 second-quarter M&A deals

Announcement date	Target	Acquirer	Seller	Deal value (millions of USD)
22-05-2017	Huntsman	Clariant	Huntsman	20,000
15-05-2017	Patheon	Thermo Fisher Scientific	Patheon	7,200
05-05-2017	VWR	Avantor	VWR	6,400
17-04-2017	Geismar, LA olefins plant and related assets	Nova Chemicals	Williams Partners	2,100
27-04-2017	Shangjai SECCO Petrochemical	Gaoqiao Petrochemical	BP	1,680

Source: CW Enterprise • Created with Datawrapper