

# CHEMICAL INSIGHTS



## Making the Grade: Specialty Ingredients Checks All The Boxes For Strong M&A Interest

What a dynamic year it has been so far in 2022. As we go to press on the Fall edition of our Chemical Insights newsletter, it is remarkable to think about how much macroeconomic news there has been in nine short months. Coming off a record year for M&A in 2021, we have seen the energy market turned sideways, significant inflation and subsequent quantitative tightening, a war in Ukraine, a decline in public markets, and ongoing supply chain challenges. Amid all this chaos, we are frequently asked how lower middle-market M&A (deal values under \$500 million) is reacting. It's overly simplistic to answer this succinctly and in general terms because much of it depends on how individual companies are performing, what their outlook is, and how exposed they are to broader macroeconomic factors. However, we continue to see lower and middle market chemicals, materials and ingredients companies perform well, particularly those concentrated in North America.

Geopolitics has slowed western investment in Asia, and the turmoil in Europe surrounding the threat of an expanded land war, disrupted energy supply and unprecedented inflation has dramatically slowed M&A activity there. There is just too much uncertainty in both of these markets to support robust M&A. However, multinational corporations in both Asia and Europe are pursuing targets in North America.

We believe that there is an ongoing "flight to quality" effect where U.S. targets will continue to attract significant interest from both financial and strategic buyers from all geographies. The underlying reason for this is an imbalance between buyers and sellers - demand is greater than supply for quality acquisitions. Both private equity funds and large public corporations are in the "acquire companies" business, which is needed to drive returns (private equity) and justify growth multiples (public acquirers). Buyers are buying.

The situation is somewhat different for sellers. A number of companies face uncertainty given the macroeconomic and market upheaval. Uncertainty creates risk, risk diminishes value, and diminished value tends to cause sellers to wait. Conversely, companies in high demand are those with less exposure to Europe and Asia, ones with clearer paths to growth and margin retention, and ones in less volatile end markets. For high-quality businesses that fit this profile, buyer interest in sale processes has remained strong, and we have experienced this firsthand in our client engagements. Conversely, underperforming businesses and large companies where buyers may rely more heavily on syndicated debt markets and CLOs<sup>1</sup>, have met more significant headwinds in sale processes. In this newsletter, we highlight how both sellers and buyers are adapting and preparing to be successful in the current economic environment. But first, we profile the Specialty Ingredients sector. This market features a host of attractive characteristics (e.g., strong organic growth, critical products, high recurring revenue, fragmented) that create a fertile ground for M&A, punctuated by compelling valuations.

<sup>1</sup> Collateralized Loan Obligations (CLOs)  
Grace Matthews Chemical Insights

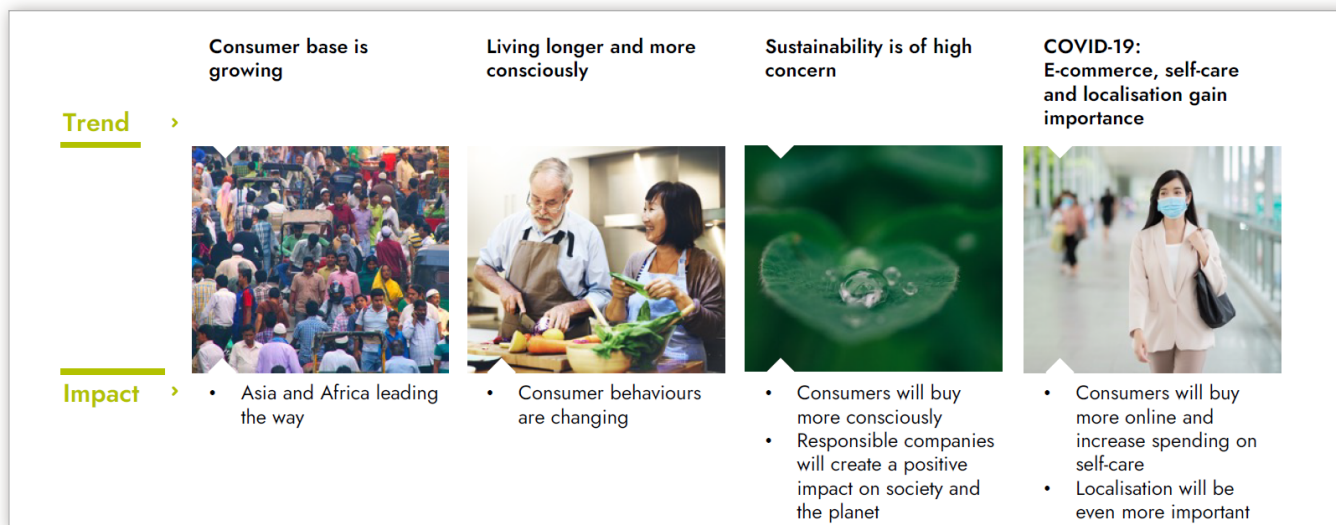
## Specialty Ingredients: Exciting Times and a Bright Outlook

At Grace Matthews, we focus on three sectors: Chemicals, Specialty Materials, and Life Sciences. Specialty Ingredients falls within the Specialty Materials vertical. Companies in this market provide a wide range of products for the food & beverage, nutraceutical, and personal care industries, including preservatives, flavoring agents, texturizing agents, coloring agents, vitamins, fibers, and many others. Beyond that, the sector also includes companies offering critical industry services such as sourcing/supply chain solutions and distribution, contract manufacturing and packaging, and outsourced R&D.

Specialty Ingredients is a dynamic market that, for many potential acquirers, “checks every box.” It is a large, broad market, the inputs are critical to the effectiveness of the finished product (a key contributor to high profit margins), it is generally non-cyclical with high recurring revenue, possesses strong growth characteristics (5-8% annually depending on the market segment), and is highly fragmented. When we attend industry trade shows such as IFT, SupplySide and the Natural Products Expo, we are amazed by the sheer volume of exhibitors and new participants entering every year. What’s more, many companies that have been historically viewed as “chemical” producers and distributors are now transforming themselves into major players in specialty ingredients. Take Ashland (NYSE: ASH) for example. Throughout its history, Ashland had been a major player in petrochemicals, plastics, water treatment, coatings, building materials, and other chemicals-oriented markets. But today, through a series of acquisitions, divestitures, and organic initiatives, Ashland now derives over 90% of its sales from additives and specialty ingredients. Similarly, Maroon Group (acquired by private equity-backed Barentz in 2020) has diversified from its legacy specialty chemical segments through the acquisition of several ingredients and life sciences-focused distributors in recent years.

It’s easy to understand why Specialty Ingredients is such an attractive market for M&A, beginning with the mega-trends driving activity and growth in the industry. Even those not in the industry are aware of some of the continually evolving consumer preferences, including increased demand for clean-label, health-conscious (e.g., reduced sugar) and natural / organic products, as well as enhanced supply chain traceability / sustainability. Below is an excerpt from a recent Givaudan (GIVN.SW) investor presentation highlighting some of these same “megatrends” impacting their 2025 strategy, particularly the trends in the middle of the graphic: “Living longer and more consciously” and “Sustainability is of high concern.”

### Megatrends: Impacting 2025 Strategy (Givaudan Investor Presentation, July 2022)



These trends create both opportunities and challenges for market participants. For smaller and new ingredients producers, launching innovative new products can lead to rapid market adoption with the right marketing and commercialization resources. For larger participants, having an established presence in a market where growth rates are well above GDP growth makes them the envy of most other industries. Yet this also breeds competition from new entrants and a need to continually invest in R&D and M&A to stay out in front of shifting consumer preferences. Look no further than the stated objectives of publicly traded ingredients companies to see where they are focused. DSM, who recently announced a blockbuster merger with Firmenich, the world’s largest privately owned fragrance and taste company, touts how it has “transformed into a pure-play health, nutrition and bioscience company.”

How do these market characteristics impact the M&A landscape for Specialty Ingredients? In short, it’s become a 21st century “arms race.” Strategics are seeking to establish market share in the most attractive segments to build out their proprietary product

portfolios, brands, and bench of food scientists. Many recognize that organically entering a new market is difficult, time-consuming, or both. Instead, they are committing major resources to M&A to stay at the leading edge of their respective market segments. According to CapitalIQ data, since the start of 2019, five of the most active acquirers in the space (Givaudan, Ingredion, Kerry, DSM and IFF) have announced a total of 45 acquisitions. On page 5, we list several recent Specialty Ingredients transactions. The strong demand for high-quality acquisition targets is reflected in the reported EBITDA multiples, as many are well into the teens.

At the same time, we're also starting to see some of these same strategic acquirers execute carve-out transactions to further align around their core strategy. For example, when Tate & Lyle announced in 2021 that it was divesting its Primary Products business in North America (its business producing commodities such as starches, sweeteners and acidulants), its CEO commented:

*"The completion of this transaction represents the start of a new and exciting chapter for our business. Tate & Lyle is now transformed into a purpose-led, growth-focused global food and beverage solutions business, serving faster growing specialty markets...As a more focused business we will enhance the way we serve our customers and accelerate growth through increased investment in R&D, innovation and solutions development. The trend towards healthier food is accelerating, and with our leading positions in sweetening, mouthfeel and fortification, we are well-positioned to meet growing consumer demand for food and drink that is lower in sugar, calories and fat, and with added fibre."*

Nick Hampton, Tate & Lyle CEO

Other strategics in the space have echoed similar sentiments with respect to a focus on higher-growth, specialty, and healthy/natural end markets.

Private equity has also shown a strong interest in specialty ingredients. As stated previously, there is much to like for PE, and they have found ways to be competitive. With high organic growth prospects, less cyclical end markets, relatively modest capex needs compared to other industries, and an abundance of potential add-on targets, private equity buyers and their lenders can justify strong values for Specialty Ingredients companies and still generate healthy returns through aggressive add-on strategies. Riverside Company's 2020 investment in FlavorSum is a prime example of this strategy. In just 2.5 years since its initial investment, FlavorSum has completed four add-on acquisitions, all focused on maintaining its status as a pure-play flavor house.

It is undoubtedly an exciting time for Specialty Ingredients participants. With an abundance of favorable market characteristics, owners who have succeeded in establishing a strong product / market niche and loyal customer base are well-positioned to be rewarded if they decide to explore a transaction. Potential sellers will likely have a variety of options, including a sale to a strategic buyer, to private equity as a "platform" investment, or to private equity as an "add-on" to an existing portfolio company.

For those considering a sale process, whether they participate in specialty ingredients or other markets, our recommendation is to spend time thinking about your goals of a potential transaction. We ask questions such as: "what do you want your role to look like after a deal?", "what legacy do you want to leave behind?" and "when is the right time for you and your business?", and work backwards to design a sale process that gives sellers the best chance of meeting those goals.

## M&A Market Update

With respect to the broader M&A market, recent headlines about declining public equity markets, inflation and international turmoil have dominated the news cycle. While overall deal volumes will be down in 2022, we also need to keep in mind that 2021 was a record year for M&A overall, in part due to the threat of tax law changes and a backlog created by a COVID-driven slowdown in

### Transaction Profile: Sale of The Ingredient House to Prinova Group (NAGASE)

The Ingredient House, LLC ("TIH"), has a significant presence in the sweetener, polyol and specialty ingredient sectors both in the U.S. and internationally. In late 2021, Grace Matthews advised TIH on its sale to Prinova Group LLC ("Prinova"), a NAGASE Group Company.

Founded in 2006 and headquartered in Southern Pines, North Carolina, The Ingredient House is a quality-focused supplier of ingredients to the global food and beverage industry. TIH has experienced substantial growth since its inception through strategic partnerships with global branded customers and off-shore manufacturers. Key to TIH's success is its implementation of and adherence to improved quality standards to consistently deliver the global supply chain needs of its food and beverage customers.

This acquisition is an opportunity for Prinova to further leverage industry relationships and integrate The Ingredient House's unique supply chain advantages into its existing business. Graham Hall, CEO at The Ingredient House, commented: "Through our 15-year history, TIH has strived to partner closely with our customers and suppliers to deliver upon our commitment to Quality, Service and Reliability. This has been the cornerstone of our growth over many years. Through an integration with Prinova, we see tremendous synergy potential through access to a much broader ingredient portfolio and manufacturing resources that will deliver significant value to our customers and our suppliers."



2020. Transactions have and will continue to close in 2022 because, for many companies, strong current performance and a healthy outlook have outweighed potential concerns about macroeconomic conditions. To assess buyer interest and valuation implications for potential sale processes, we believe the most important considerations pertain to how individual companies are performing, the sustainability of their current performance, and any impacts they are experiencing from current macroeconomic conditions. For some lower middle market chemicals, specialty materials and ingredients businesses, we have seen them not only adapt, but thrive. High-quality businesses that have navigated supply chain challenges, effectively responded to inflationary pressures (i.e., passed along price increases), and for whom the performance outlook (i.e., sustainability of earnings) remains healthy, continue to attract buyer attention. On the flip side, some sellers have begun to “pull” sale processes out of the market, quite often because of factors largely outside of their control. Examples include companies with significant exposure to European / Asian markets and large businesses (\$500 million or greater) where buyers may rely more heavily on syndicated debt markets and CLOs that have seen meaningful tightening.

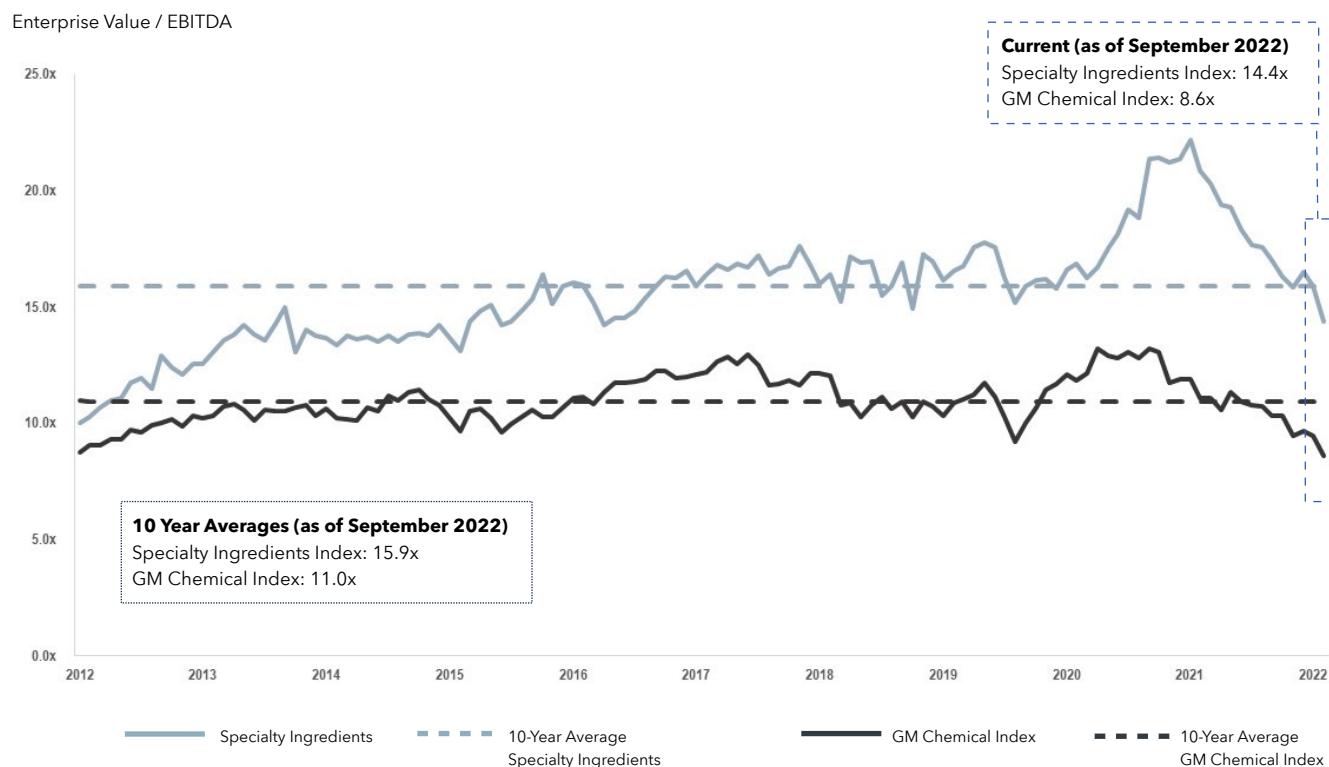
Many potential buyers remain well-capitalized and eager to put money to work to acquire fundamentally strong and attractive businesses. U.S. private equity “dry powder” (committed capital) reached a record \$1.0 trillion at the end of 2021<sup>2</sup>, and lower middle market lenders have remained a bit more active than their larger commercial and institutional counterparts. Similarly for strategics, balance sheets remain strong, and we see them continuing to aggressively pursue bolt-on acquisitions. While there are many reasons strategics pursue M&A, a common theme we often hear is that they are willing to be disciplined so that when the “right” opportunity comes along, whether current market conditions are favorable or not, they can aggressively pursue it based on the potential long-term, strategic benefits.

With so many moving parts both in the broader economy and for individual businesses, we recommend sellers and buyers keep a few important points in mind. First, sustainability of earnings has become perhaps the most pertinent topic that sellers, buyers and lenders need to understand. Buyers are more commonly performing and closely analyzing market studies to understand market trends and outlook. Similarly, sellers need to be prepared to support financial projections and respond to increased diligence scrutiny related to the outlook. For owners considering a sale process, time is on your side, and it is critical to use that time upfront to prepare. Prior to engaging in discussions with potential buyers, sellers should take time to proactively address potential buyer concerns, properly frame marketing materials, and get organized for the inevitable due diligence that will follow. Finally, we recommend potential sellers consider what is most important for them to achieve from a sale (e.g., value, terms, legacy, post-closing role, outcome for employees, etc.). With the goal defined, we can then work backwards to customize a process and timeline that maximizes a seller's potential to achieve a desired outcome, while considering a variety of internal and external (market) factors.

---

<sup>2</sup> Bain Global Private Equity Report 2022  
Grace Matthews Chemical Insights

## 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 95 publicly traded chemical companies that span multiple sub-sectors and geographies. The Specialty Ingredients Index consists of 16 publicly-traded companies. 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 Specialty Ingredients Transactions

Transaction values in \$US millions					
Closed Date	Acquirer / Target	Target Description	Enterprise Value (EV)	EV / Sales*	EV / EBITDA*
Pending	Sensient / Endemix	Natural colors and extracts for the food & beverage industry	-	-	-
Sep-22	FDL (Highlander Partners) / Quest Ingredients	Food flavors, animal feed flavors, and active botanical extracts	-	-	-
Aug-22	Balchem / Bergstrom Nutrition	MSM for nutritional and cosmetic applications	-	-	-
Aug-22	LFA Machines / Vivion	Distributes nutritional and pharmaceutical ingredients	-	-	-
Jun-22	Kensing / Vitae Caps	Plant derivatives for the food, nutrition, and skin care markets	-	-	-
Jun-22	Balchem / Kappa Biosciences	Specialty vitamin K2 for human nutrition industry	\$338	6.4x	18.0x
May-22	DSM / Firmenich	Fragrances, flavors, and ingredients	\$20,113	4.5x	23.5x
May-22	Shore Capital / OC Flavors	Natural and organic flavoring solutions for the food & beverage and supplement markets	-	-	-
May-22	Batory Foods / Sweetener Solutions	Custom sweetener formulation, blending and specialty portion packaging	-	-	-
Apr-22	Kerry Group / Natreon	Ayurvedic extracts for the dietary supplement and functional food & beverage industries	-	-	-
Apr-21	Ingredion / KaTech	Advanced texture and stabilization solutions for the food & beverage industry	-	-	-
Feb-22	International Flavors & Fragrances (IFF) / Health Wright Products	Capsules for the dietary supplement industry	~\$157	~1.6x	-
Jan-22	Oterra (EQT) / Food Ingredient Solutions	Natural and synthetic colors and antioxidants	-	-	-
Jan-22	Tilley-Phoenix Group (SK Capital) / Callahan Chemical	Distributes ingredients and specialty chemicals	-	-	-
Dec-21	Tilley (SK Capital) / Phoenix Aromas & Essential Oils	Distributes flavors and fragrances ingredients and compounds	-	-	-
Nov-21	Florida Food Products (Ardian) / Comax Flavors	Clean label flavor solutions for the beverage and nutrition markets	-	-	-
Nov-21	Batory Foods / DMH Ingredients	High intensity and alternative sweeteners for the food & beverage and pharmaceutical industries	-	-	-
Nov-21	ADM / Deerland Enzymes	Probiotic and dietary supplements	\$644	-	-
Oct-21	Givaudan / DDW, The Color House	Natural colorings for the food & beverage industries	-	-	-
Sep-21	Prinova (Nagase) / The Ingredient House	Sweeteners, polyols, and other specialty ingredients for the food & beverage industry	-	-	-
Sep-21	Oterra (EQT) / Diana Foods	Natural food coloring business	-	-	-
Sep-21	DSM / First Choice Ingredients	Dairy-based concentrates and flavors	\$453	~6.0x	19.8x
Jul-21	Sensient / Assets of Flavor Solutions	Flavors and flavor technologies for the food & beverage and nutraceutical markets	-	-	-
Jun-21	Barentz / Pestell Minerals & Ingredients	Distributes minerals, additives, nutrients, and other specialty ingredients	-	-	-
Jun-21	Kerry Group / Niacet	Chemical products for food preservation	\$1,015	4.6x	15.4x
May-21	Tilia / Nutriscience Innovations	Dietary supplement and functional food ingredients	-	-	-
May-21	Synergy Flavors / Innova Flavors	Customized meat and savory flavors	-	-	-
Apr-21	Kemin Industries / Proteus Industries	Clean label protein ingredients	-	-	-
Apr-21	Blue Road Capital / Natural American Foods	Distributes natural sweeteners	\$102	-	-
Feb-21	Lanxess / Emerald Kalama Chemical	Chemical intermediates, additives, and food preservatives	\$1,075	2.5x	11.9x

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 Material Science and Chemical Transactions

 <p>has been acquired by Renovo Capital and its portfolio company</p>  <p>A.P. NONWEILER CO., INC. It's The Finish That Counts</p>	 <p>Value from the Ground Up</p> <p>has acquired the kaolin minerals business of</p>  <p>We create chemistry</p>	 <p>through its subsidiary, GEO Specialty Chemicals, has sold its DMPA business to</p> 	 <p>Discover the Quality within</p> <p>has been acquired by</p> 
 <p>has been acquired by Wind Point Partners' portfolio company</p> 	 <p>through its subsidiary, Evans Chemetics, has sold its Thioester Business to</p> 	 <p>has been acquired by</p> 	 <p>has sold certain assets to</p> 
 <p>Vegetation Management</p> <p>has been recapitalized by</p>  <p>Auxo Investment Partners</p>	 <p>a portfolio company of Audax Private Equity has been acquired by</p> 	 <p>has been acquired by H.I.G. Capital's portfolio company</p> 	 <p>PAINT &amp; COATINGS</p> <p>has sold its Colorado and New Mexico store locations to</p>  <p>SINCE 1899 WHERE COLOR COMES FROM.</p>
 <p>PRODUCTS INCORPORATED</p> <p>has been acquired by</p> 	 <p>Advancing Rigid PVC Processing</p> <p>has been acquired by</p>  <p>THE INTERNATIONAL GROUP, INC.</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> 

Grace Matthews Client Listed First

## Grace Matthews Overview

Grace Matthews is recognized globally as a leader in transaction advisory services for manufacturers and distributors throughout the material science and chemical 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
- High Purity, Electronic Chemicals
- Industrial Minerals, Inorganic Chemicals
- Ingredients, Nutraceuticals, Flavors, Fragrances
- 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 200 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@gracemattthews.com

### Andy Hinz

Managing Director  
ahinz@gracemattthews.com

### Jon Glapa

Director  
jglapa@gracemattthews.com

### Tom Osborne

Senior Executive  
tosborne@gracemattthews.com

### Matt Stouder

Associate  
mstouder@gracemattthews.com

### Courtney Browne

Analyst  
cbrowne@gracemattthews.com

### Drew Gebhardt

Analyst  
dgebhardt@gracemattthews.com

### Kevin Yttre

President, Managing Director  
kyttre@gracemattthews.com

### Doug Mitman

Co-Founder, Senior Advisor  
dmitman@gracemattthews.com

### Andrew Cardona

Director  
acardona@gracemattthews.com

### Michelle Tveten

Marketing Director  
mtveten@gracemattthews.com

### Kyle Tamboli

Associate  
ktamboli@gracemattthews.com

### Andres Fernandes

Analyst  
afernandes@gracemattthews.com

### Katie Long

Office Manager  
klong@gracemattthews.com

### Ben Scharff

Managing Director  
bscharff@gracemattthews.com

### Bridget Spaulding

CFO  
bspaulding@gracemattthews.com

### Eric Sabelhaus

Director  
esabelhaus@gracemattthews.com

### Chris Hayes

Associate  
chayes@gracemattthews.com

### Sam French

Senior Analyst  
sfrench@gracemattthews.com

### Jack Chandler

Analyst  
jchandler@gracemattthews.com

### Headquarters

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



Grace Matthews, Inc. ([www.gracematthews.com](http://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.

The information and views contained in this report were prepared by Grace Matthews, Inc. It is not a research report, as such term is defined by applicable law and regulations, and is provided for information purposes only. No part of this material may be copied or duplicated in any form or by any means, or redistributed, without Grace Matthews' prior written consent.

Copyright (c) 2022 Grace Matthews, Inc. All rights reserved. Securities are offered through GM Securities, LLC, which is indirectly owned by Grace Matthews, Inc., and a registered broker dealer and member of the [Financial Industry Regulatory Authority](#) and [Securities Investor Protection Corporation](#). Check the background of this firm on [FINRA's BrokerCheck](#).