Competitive M&A market looks set to persist

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A highly competitive market for chemicals M&A, which took hold in late 2020 and gained steam through 2021, looks set continue at least through this year, according to a panel discussion yesterday at SOCMA's specialty and custom chemicals show, held this week in Fort Worth, Texas. While risks abound and supply constraints are an important topic of discussion in due diligence, appetite for deals is strong and demand remains very high.

"I think you will see more activity in the late second quarter and the third quarter," says Kevin Yttre, managing director with Grace Matthews (Milwaukee, Wisconsin), an investment bank. "A lot of companies did very well in 2021 and had a strong January and February. If that holds, you'll see more deals happen in the back half of this year. Right now I'm pretty bullish on the second half of 2022 and early 2023."

While interest rates are expected to rise, M&A valuations should remain high due to spare cash capacity on the part of buyers, including both private equity firms and chemical producers. "I don't think the dynamic will change for valuation and the competitive landscape," says Bob Girton, tk with Edgewater Capital Partners (Cleveland, Ohio), a private equity firm. Changes can happen quickly, however. "The private market follows the public market more quickly than it has in the past," Girton adds.

Competition for assets is often fierce, and process often move quite fast, panelists say. "This is the most competitive M&A environment I have worked in," Yttre says. Edgewater Capital, like many private equity firms, has adopted a strategy of carefully picking deals but aggressively pursuing those transactions it does pick. "We started to triage last spring…that dynamic has meant that every process has become very narrow," Girton says. "You figure out very early what to focus on."

This has, not surprisingly, driven up multiples, and private equity buyers have proven willing to pay up. EBITDA multiples in chemicals M&A have increased, as have asset valuations more generally. "Historically, you could get better value from strategic buyers," Yttre says. "They'd move slower, but they'd pay more. But now, private equity is willing to pay more, and strategic buyers are moving faster. It makes it harder to differentiate."