Strong rebound for M&A in 2021

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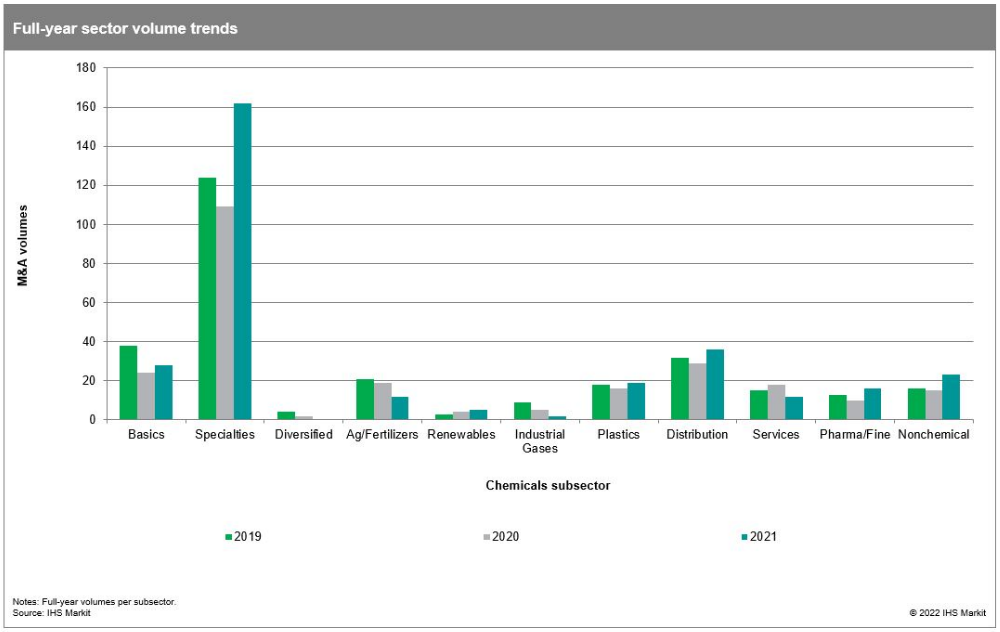


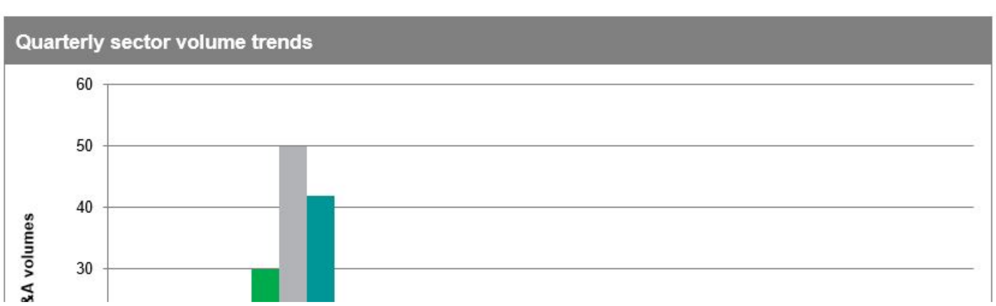
Chemicals M&A activity rebounded very strongly in 2021, after the COVID-19 pandemic cut into activity in 2021, according to CW data. The number of transactions for the full-year 2021 increased 25% from 2020, from 251 to 315. Deal values were also up strongly in 2021, rising by 67% from about \$69.8 billion to about \$116.4 billion.

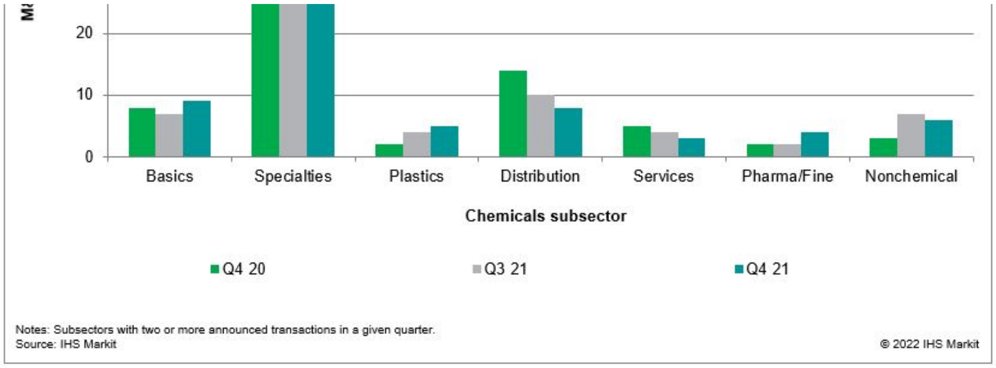
M&A activity in 2021, in fact, eclipsed 2019's level of activity, at least in terms of the number of transactions. Some 293 deals were announced in 2019, about 7% fewer than in 2021. The value of M&A deals was 82% higher in 2019 than in 2021, however, at about \$211.5 billion. That figure was boosted by the \$69.1-billion Saudi Aramco-SABIC deal, which was announced in March 2019.

Announced deal activity was up on a year-on-year (YOY) basis during the fourth-quarter of 2021, as well. The number of transactions announced in the fourth-quarter rose 10% YOY, to 78, while deal values were up 49%, to about \$33.0 billion. The fourth-quarter of 2020 saw solid M&A volumes relative to earlier in the year, so the increases were not just an artifact of the pandemic's impact.

Still going

The robust M&A market continued into January, with 25 transactions announced last month, according to CW's database. Bankers say that the environment remains conducive for M&A. "Despite all the 'noise,' we know buyers remain acquisitive and have record levels of capital (both debt and equity) to deploy for acquisitions," says Grace Matthews (Milwaukee, Wisconsin), an investment bank.





Inflation and the supply chain crunch are top-of-mind for industry executives and factors in M&A discussions, but their net impact on deal activity and interest appears to be negligible. “Controlled chaos and uncertainty have become the new norm. Buyers need to identify an M&A strategy and stick to it,” says Grace Matthews. “Successful acquirers are able to glean insights from transitory events while remaining focused on evaluating the acquisition’s strategic fit within the buyer’s long-term objectives.”

Private equity firms are honing their focus on desired targets. “Post-COVID, private equity would triage deals coming in,” says Anthony Giorgio, managing director TM Capital (New York, New York), an investment bank. “With more supply, you would think that deal values would go down…but there is so much money chasing so few deals.” Private equity firms are committing to smaller number of transactions, and chasing them aggressively, driving up values, Giorgio adds.

Specialty chemicals are, very often, the targets of choice. While specialties typically make the largest proportion of M&A transactions in CW’s database, the number of specialties deals saw a particular surge in 2021. Some 162 M&A deals were announced in specialties last year, about 51% of total deal volume in 2021, and an increase of 49% and 31% from 2020 and 2019, respectively.

While inflation is a concern, and higher interest rates are on the radar, neither appears likely to derail the M&A market. Interest rate increases are not likely to be rapid or dramatic, and “I see no abating of values,” according to Giorgio. “There’s still a trend for private equity firms to do more chemicals deals.” Meanwhile, chemical producers “go out and buy earnings growth, and at this point investors are not discriminating on where that growth comes from,” he adds.