

CHEMICAL INSIGHTS



Unlocking Value: Corporate Divestitures in Chemicals & Materials M&A

Including views on opportunities in the year ahead

In our first newsletter of 2023, we reflect on the chemicals & materials M&A market of the past year as well as our outlook for the year ahead. Higher interest rates and credit costs, global economic uncertainty, political instability, and other factors contributed to M&A activity in 2022 declining from record levels in 2021, and these challenges linger into 2023. However, we expect M&A markets to remain resilient and steady as buyers and sellers establish a “normalized” level following the volatility of 2020 (COVID-19), 2021 (supply chain issues), and 2022.

Additionally, in this Winter 2023 newsletter, we take a deeper dive into corporate divestitures, an area Grace Matthews has spent substantial time on in recent years. This is a segment of the M&A market that we expect to continue to remain active as large companies funnel capital to priority areas while divesting non-core businesses/segments whose value can be unlocked more quickly under different ownership.

Volatility of 2022 Positions 2023 for Resiliency and Opportunity

In retrospect, the step-down in M&A activity in 2022 should have been obvious. While we cannot have record M&A activity every year, the drop-off from the record levels of 2021 to 2022 felt stark and tangible, particularly given 2021’s activity was very second-half weighted. Interestingly, the M&A headwinds that emerged in 2022 were clear to us at the start of the year: rising inflation, geopolitical instability, and a decade-long bull market in public equities inevitably due for a correction. While deal-makers were aware of these at the start of 2022, few anticipated the pace at which these challenges would unfold. For example:

- Rapidly rising interest rates quickly resulted in increased lending costs and, in some instances, temporarily reduced supply of debt financing as some lending institutions chose to remain on the sidelines for periods of 2022
- Russia’s invasion of Ukraine and the resulting war, which still has no conclusion in sight, has fostered enormous political instability and contributed to volatility in demand patterns, raw material costs, and energy prices on a global basis, with a particularly challenging impact in Europe
- Public equities worldwide pulled back between ~10-30%,¹ and the general expectation in the equity markets is that levels will trend sideways for the near and medium-term²

We could write a newsletter on each topic above, but you understand the point—M&A in 2022 was hit by a variety of challenges. Obstacles persist as we begin 2023, though we also see reason to view the glass as half-full. Further interest rate hikes are expected, but the rate of increases is likely to slow. While debt will continue to be relatively expensive, the record amount of dry powder that private equity funds have amassed (nearly \$2 trillion as of December 2022) remains ready to be deployed, particularly given the fact

¹ S&P Global - U.S. Equities Market Attributes, December 2022 ([link](#))

² Fidelity Management & Research Company, December 2022 ([link](#))

that many of these well capitalized buyers sat on the sidelines throughout 2022.³ Similarly, inflation in the US appears to have peaked in the second half of 2022, which should begin easing cost and price increases. Globally, while the Russia-Ukraine war continues, Europe is seeing energy prices gradually return to late 2021 levels, and we expect demand in Asia-Pacific to return closer to normalized levels via the gradual reopening of China.⁴ Despite constant chatter of a looming recession throughout 2022 and beginning this year, US GDP grew 3% in Q3 2022.⁵ Moreover, within the North American chemicals industry, overall output managed to increase by nearly 4% throughout 2022.⁶

Through all the challenges of 2022, deal-making continued, which is why we are encouraged heading into the new year. Simply put, to borrow from IntraLinks and MergerMarket's 2023 Global M&A Dealmakers Sentiment Report, "Optimism persists," as they note that 62% of respondents "expect overall levels of M&A activity to increase over the year to come."⁷

Specific to the chemicals & materials industry, we expect M&A activity to be driven by a focus on quality, fit, and geography.

- **Quality:** Businesses that maintain a positive outlook for 2023 and performed well over 2020-2022 by managing through supply chain issues, inflation and raw material cost increases, and other headwinds will continue to command attention in M&A processes.
- **Fit:** Strategic acquirers will continue to deploy capital towards inorganic growth should they see strong fit, alignment with core strategy, and/or synergy potential within their organization.
 - "We remain confident in the quality of our portfolio and its growth potential, and we'll look to be opportunistic with select and targeted M&A moving forward."
- Edward D. Breen, DuPont CEO & Executive Chairman, DuPont Q3-22 Earnings Call
 - "We'll continue to invest materially in the coming years in the U.S., including if we have the opportunity on M&A."
- Thierry Le Henaff, Arkema Chairman & CEO, Arkema Q3-22 Earnings Call
- **Geography:** M&A in North America is likely better suited for a more active 2023, as the region has not been as exposed to the energy price shocks and demand uncertainty that Europe is currently facing. In the Asia-Pacific region, the re-emergence of China after altering its 'Zero-COVID' strategy will unfold over time, and this may give economic fits to the region similar to what the US and Europe saw throughout 2021.

We remain cautiously optimistic that 2023 will present opportunity for both buyers and sellers in chemicals & materials M&A. As previously mentioned, one segment we expect strong activity in is corporate divestitures, an area where Grace Matthews has substantial expertise.

Continued Rise of Corporate Divestitures in Chemicals & Materials M&A

The fundamental driver behind corporate divestitures (also referred to as carve-outs) is the premise that large corporations can achieve more value over time by selling a business segment and investing the proceeds into areas of higher return than continuing to own it. While carve-out transactions have unique complexities that the sale of standalone businesses may not have, such as post-closing transitional service or supply agreements, scope and structure challenges, and disentanglement from the parent organization, corporate divestitures create the opportunity for a win-win arrangement between seller and buyer. On the one hand, sellers can invest proceeds to accelerate long-term value creation—for example, sellers can re-deploy capital for M&A opportunities, capital projects, or technological advancements in high-priority segments sooner than they otherwise would have. On the other hand, strategic acquirers of carve-outs can bolster existing market positions and extract synergies, while private equity acquirers can create standalone businesses with lean, highly functional organizations focused solely on growing what is commonly referred to as the "corporate orphan."

Reasons for Corporate Divestitures and Our Expectations for Continued Increase in Carve-Out Activity

While drivers behind corporate divestitures may vary, executives at these organizations have recognized that carve-outs can unlock value within an organization, and public equity data supports this. A recent PwC article noted that, over the past decade, the median public company announcing a divestiture saw its stock increase 3.8% relative to peers around the announcement date.⁸ In a nod to the current M&A environment, PwC goes on to note, "A disciplined, strategic approach to divestitures can drive overall returns, even in a challenging environment."

³ S&P Global - Global Private Equity Dry Powder Approaches \$2 Trillion, December 2022 ([link](#))

⁴ The New York Times - Natural Gas Prices in Europe Fall to Pre-Invasion Levels, January 2023 ([link](#))

⁵ U.S. Bureau of Economic Analysis - GDP by Industry and Corporate Profits, Third Quarter 2022 ([link](#))

⁶ ICIS - More Challenges in 2023 After Big Year for US Chems, December 2022 ([link](#))

⁷ 2023 Global M&A Dealmakers Sentiment Report ([link](#))

⁸ PwC - US Deals 2023 Outlook ([link](#))

In our experience with corporate divestitures, there can be a wide range of motivators to put a non-core business segment out to market. We typically work on carve-outs that fit one or more of the following criteria:



Different financial profile than core business segments (e.g., margins, growth rates, capex requirements)



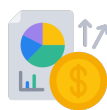
Serving a market/industry with different growth rates or industry outlook than core businesses



Sustained underperformance of business segment relative to expectations



Misalignment with ESG (Environmental, Social, and Governance) initiatives of parent organization



Recent or upcoming capital expenditure requirements that exceed the parent company's desired capital allocation parameters



Sellers seeking liquidity



Minimal or no overlap with parent organization's core strengths or mission, creating an inability for parent company to leverage synergies that other organizations may have (see again the popular term, "corporate orphan")

Leaders of large corporations we work with are constantly reviewing their businesses to gauge performance and understand if there is potential to create value through a divestment. When the time comes to act on such a decision, these executives recognize that carve-outs are not a sign of weakness but rather an opportunity to accelerate value creation and reinforce the core strategies of the parent organization.

Looking ahead within the chemicals & materials industry, we fully expect corporate divestiture activity to continue in line with broader M&A activity. This sentiment is echoed by executives throughout the industry (see next section), and buyers—both strategics in the space as well as private equity funds making platform investments—continue to have success in creating value with segments other companies deem non-core (see final section for case studies of recent carve-outs on which we have advised). The more challenging market conditions as of late have arguably heightened the need for executives to focus on near-term value creation for shareholders, and portfolio management, in the form of divestitures, allows companies to achieve this and funnel resources to higher priorities with their organizations.

Recent Commentary Surrounding Corporate Carve-Outs in the Chemicals & Materials Industry

We routinely review quarterly earnings transcripts for public companies in our industry. As mentioned above, we have seen multiple noteworthy comments where executives highlight portfolio management, an emphasis on "core" businesses, and potential or in-process divestitures as a near-term priority.



3M Transcript (Q3-22)

Chairman & CEO: ...We are positioning 3M for long-term success by actively managing our portfolio, complementing all we do to strengthen our enterprise organically. Last month, we completed the divestiture of our Food Safety business, which unlocks value and further strengthens our balance sheet. We received approximately \$1 billion and reduced our outstanding share count by 16 million...we continue to execute our strategies in a challenging environment while positioning 3M for the future through investments in growth, productivity and sustainability, along with active portfolio management.



SW transcript (Q4-22)

Chairman & CEO: We've been evaluating multiple options available to us based on a wide range of scenarios, and we are prepared to take appropriate actions beginning this quarter. We continue to review our portfolio of businesses, brands and customer programs to ensure that they are adding above-market growth and long-term shareholder value.



Eastman transcript (Q3-22)

CFO & Senior VP: Additionally, again, we've reduced and focused our portfolio. We're investing to ensure that, one, [in the safety and maintenance of our plants]; two, that we continue to grow our core specialties; and then three, as we spent time today talking about our circular platform.



BASF Transcript (Q3-22)

Chairman & CEO: You see in some of these divisions also... for example, Industrial Solutions, which is a very nicely contributing segment. We don't talk much about it, but they have really great earnings. And both of the divisions, we have actually cleaned up. So we have divested quite a bit where it's paper chemicals, textile and many others, [including] Kaolin.

Grace Matthews' Experience in Advising on Corporate Divestitures

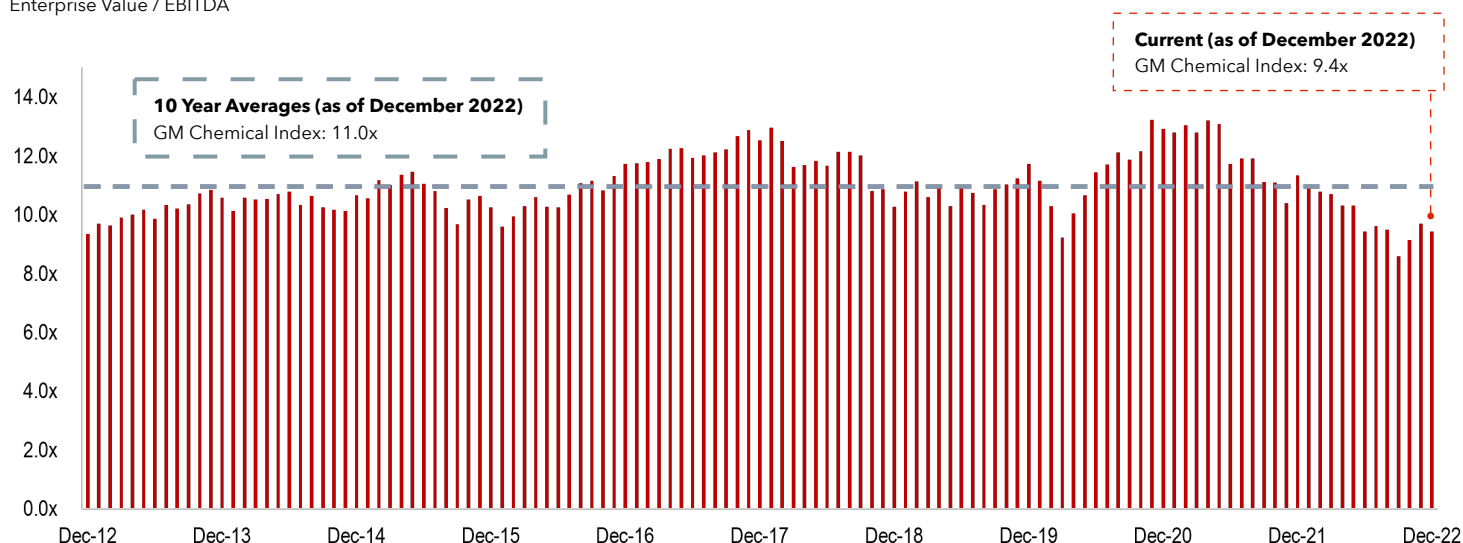
Over the past few years, Grace Matthews has successfully advised selling organizations on 20+ carve-out transactions. Our professionals know that corporate carve-outs are very rarely stereotypical “matchmaking” deals for our clients and that attention to detail from the beginning through closing is critical. When we work on carve-outs, certainty of close and value creation/preservation are our key areas of focus.

We understand the unique challenges that a divestiture may require, and we would enjoy the opportunity to discuss this further should it be of interest. Below are a few examples of carve-out transactions Grace Matthews advised on.

 <p>through its subsidiary, GEO Specialty Chemicals, has sold its DMPA business to</p> 	 <p>has acquired the kaolin minerals business of</p> 	 <p>through its subsidiary, Evans Chemetics, has sold its Thioester Business to</p> 	 <p>has sold its Colorado and New Mexico store locations to</p> 
 <p>has sold certain assets to</p> 	 <p>has sold its methylamines business to Belle Chemical Company, an affiliate of</p> 	 <p>has divested its surfactants, thickeners and dispersants business to</p> <p>Tiarco, LLC</p> <p>a subsidiary of</p> 	 <p>has sold its Specialty Fluids business to</p> 
 <p>the automated fueling stations business of Jacobus Energy, has been acquired by</p> 	 <p>a wholly owned subsidiary of Tingue, Brown & Co. has been acquired by Olympus Partners' portfolio company</p> 	 <p>has sold its subsidiary CiDRA Chemical Management Inc. (CCMI) to</p> 	 <p>has sold its Baytown Operations to</p> 
 <p>has sold select Canadian assets to</p> 	 <p>has sold its global polyolefin catalyst business to</p> 	 <p>has sold its pressurized polyurethane foam adhesives business to</p> 	 <p>has sold its subsidiary, Bacon Adhesives, to</p> 

Grace Matthews Chemical Index: Enterprise Value / EBITDA (Last 10 Years)

Enterprise Value / EBITDA



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 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 Industry Transactions

Transaction values in \$US millions					
Closed Date	Acquirer / Target	Target Description	Enterprise Value (EV)	EV / Sales*	EV / EBITDA*
Pending	Dorf Ketal / Land Oil Business of Clariant	Provider of chemical technologies and services to the North American Oil & Gas industry	-	-	-
Pending	PAI Partners / IFF's Savory Solutions Group	Offers a range of ingredients and food-product blends serving the food service industry	\$900	1.9x	14.0x
Pending	Corteva / Stoller Group	Develops and distributes crop health products predominantly in the midwestern U.S.	\$1,200	-	12.0x
Pending	Sherwin-Williams / Oskar Nolte / Klumpp Coatings	Manufactures wood and plastic coatings for use in industrial and residential applications	-	-	-
Pending	Infineum / Pipeline And Industrial Materials Business Of Entegris	Entegris' Pipeline and Industrial Materials business comprising of Flowchem, Val-Tex, and Seal-weld brands	-	-	-
Pending	DSM / Firmenich	Develops and manufactures flavors and fragrances globally	\$20,113	4.5x	23.6x
Pending	Yildirim / Chromium Business of Elementis	Manufactures and sells chromium	\$170	1.0x	7.3x
1/3/2023	Prayon / Febex	Manufactures phosphorus-based raw materials primarily used in the pharmaceuticals and electronics industries	-	-	-
12/6/2022	HEXPOL / McCann Plastics	Manufactures thermoplastic compounding chemicals and materials	\$120	1.7x	-
11/18/2022	International Chemical Investors / Inprotec	Manufactures granules and powders through spray-drying, selling into a wide array of end markets	-	-	-

Transaction values in \$US millions

Closed Date	Acquirer / Target	Target Description	Enterprise Value (EV)	EV / Sales*	EV / EBITDA*
11/16/2022	H.B. Fuller / GSSI Sealants	Manufactures butyl sealants for the metal building industry	-	-	-
11/9/2022	ANGUS / Expression Systems	Develops a baculovirus expression platform, including cell culture media formulations, cell lines, and molecular tools	-	-	-
11/7/2022	Gryphon Investors / Techmer PM	Manufactures colors and additives for the plastics and fiber industries, including antistats, antimicrobials, and foaming agents, among others	-	-	-
11/1/2022	H.I.G. Capital / Distribution Business of Avient Corporation	Former polymer distribution business of Avient; now formally known as Formerra	\$950	-	10.0x
10/11/2022	PETRONAS / Perstorp	Manufactures and sells diversified specialty chemicals globally	\$2,346	1.5x	8.4x
10/4/2022	Holcim / ITW's Polymer Sealants North America Business	Manufactures a line of elastomeric roof coatings and restoration systems	-	-	-
10/3/2022	Sensient / Endemix	Produces and sells natural colors and extracts	-	-	-
10/3/2022	HallStar / LANXESS Esters Manufacturing Facility	Esters manufacturing facility located in Greensboro, NC	-	-	-
9/30/2022	Flacks Group / Kelly-Moore	Manufactures and distributes interior / exterior paints and coatings for a variety of industrial and residential applications	-	-	-
9/27/2022	Saint-Gobain / GCP Applied Technologies	Produces specialty construction chemicals and building materials worldwide	\$2,307	2.3x	13.2x
9/8/2022	American Securities / Meridian Adhesives	Manufacturer of high-value adhesives and sealants	-	-	-
9/7/2022	Comvest / SK Capital / VanDeMark	Develops and manufactures a wide array of specialty chemicals serving diversified end markets	-	-	-
9/6/2022	Seatex / ChemQuest Chemicals	Custom blender and processor of a variety of chemical compounds based in Pasadena, TX	-	-	-
9/1/2022	Chase Corporation / Nucera Solutions	Manufactures specialty polymers	\$250	3.0x	11.9x
9/1/2022	Avient / Protective Materials business of DSM	DSM's Protective Materials business, primarily consisting of Dyneema fiber brands	\$1,485	3.6x	11.4x
8/2/2022	SK Capital / Valtris Specialty Chemicals	Provides specialty chemicals for the building & construction, packaging, consumer goods, transportation, and oilfield industries	-	-	-
7/20/2022	Coats Group / Texon	Develops and manufactures materials for a wide variety of end markets, including felts, filmic materials, and cellulose boards	\$237	1.8x	11.3x
7/6/2022	Entegris / CMC Materials	Provides chemicals and consumable materials to semiconductor manufactures worldwide	\$5,700	4.5x	15.6x
6/24/2022	Balmoral Funds / Trecora Resources	Manufactures various petrochemical products and specialty waxes	\$247	0.8x	11.4x
6/16/2022	Shrieve / Independent Contract Packaging	Provides blending, packaging, warehousing, and distribution services to petrochemical companies	-	-	-
4/12/2022	Applied Products / Prime Industries	Supplies adhesives, sealants, and dispersing equipment solutions	-	-	-

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 Chemical and Material Science Transactions

 <p>has been acquired by</p>  <p>Colonial Group, Inc. Growing a Business. Building a Family.</p>	 <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>BASF We create chemistry</p>	 <p>through its subsidiary, GEO Specialty Chemicals, has sold its DMPA business to</p> 
 <p>has been acquired by Wind Point Partners' portfolio company</p>  <p>ASCENSUS</p>	<p>BRUNO BOCK THIOCHEMICALS</p> <p>through its subsidiary, Evans Chemetics, has sold its Thioester Business to</p> 	 <p>has been acquired by</p> 	 <p>Discover the Quality within</p> <p>has been acquired by</p> 
 <p>has sold certain assets to</p> 	<p>Ferrovia Services, LLC</p> <p>Vegetation Management</p> <p>has been recapitalized by</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>has sold its Colorado and New Mexico store locations to</p> 	 <p>has been acquired by</p> 	 <p>Advancing Rigid PVC Processing</p> <p>has been acquired by</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>CABOT</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> 

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 chemical and material science 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.

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Grace Matthews, Inc. (www.gracemathews.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.

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