CHEMICAL INSIGHTS

Momentum Building into 2025: Strategies for M&A Success

For many in the chemicals and materials value chain, this year has been a rebound from the uncertain demand patterns and rippling effects of destocking that we saw in 2023. Throughout 2024, we have remained quite active, and the developments we have seen over the course of the year support this growing momentum:

- The number of announced North American chemicals & materials science deals has steadily increased *(see chart on p.2)*
- Domestic and international strategics remain acquisitive and have publicly stated intentions to continue deploying M&A capital
- The overall number of PE funds investing in the middle market and the number of funds investing in the chemicals and materials value chain have continued to increase; moreover, PE continues to have record amounts of dry powder that needs to be deployed
- Buyers have routinely commented on a lack of high-quality companies in the market, which means attractive opportunities receive a significant amount of buyer attention
- Increasing consumer confidence and a shifting regulatory landscape with respect to M&A provide favorable tailwinds for GDP growth and broader M&A environment

The result of all of this: an increasingly robust M&A market in 2024 that we fully anticipate to continue into 2025. In order to succeed in this competitive arena, buyers will need to develop a specific and well-articulated acquisition strategy, commit real resources in terms of dollars, personnel and senior executive attention to this strategy, and identify ways to differentiate themselves versus others in a highly competitive market. When successful, this is a win-win for buyer & seller: buyer has executed on their strategy, and seller ends up in a good "home" with a buyer that's done their homework. Below, we discuss these strategies in more detail and conclude with our thoughts and expectations for 2025.

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Benefits of Developing an M&A Strategy in a Competitive Market

One common trait we have seen in companies that have demonstrated M&A success is a substantial investment of resources into what seems to be a simple task: defining an M&A strategy and making M&A a priority in the organization. Defining this strategy may even take years of work – it starts with developing an initial strategy, building an M&A pipeline, evaluating opportunities, and constantly recalibrating over the course of years of evaluating opportunities. In taking this approach, the M&A function becomes a core pillar of the organization. Moreover, the benefit of prioritizing and building out an M&A strategy is that it allows a buyer to differentiate itself by moving with speed and conviction when a competitive bidding situation arises.

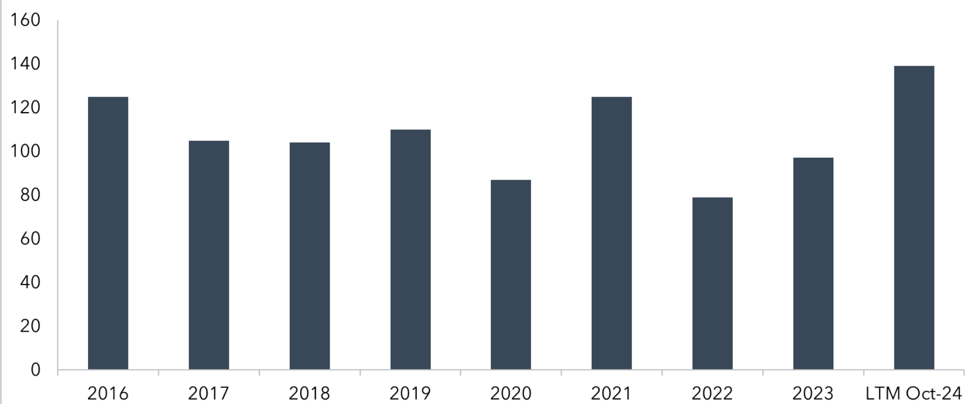
Broadly speaking, you could say strategics pursue two types of acquisitions. First, there are the deals that bring new geographies, products, technologies, etc. – these expand the portfolio, the solution offering, and the geographic reach without doing so organically. These deals require strategic planning and assumption testing that is internally vetted. Second, there are the straightforward bolt-ons – the deals that strategics should be ready to act on, are easy tuck-ins, carry little integration risk, and present significant opportunity for cost savings. These deals require some work upfront defining who these targets are and then having a team ready to execute on short notice when these opportunities are available.

We often see buyers evaluate acquisitions against a range of criteria to gauge interest and prioritize targets. In the chemicals and materials science value chain, examples of criteria that we have seen strategic buyers use to evaluate acquisitions include:

- Product portfolio enhancement: Target fills gaps in existing portfolio that can be cross-sold into same market channels and/or to existing customer base
- Technology/IP focus: Target carries strong in-house know-how and/or IP-protected products that acquiring company does not have
- Shoring up supply chain: Target enables buyer to vertically integrate and enhance control over key raw materials
- Geographic reach: Target has facilities, employee base, and/or customer base in geographies that acquirer has identified as priority for expansion
- Capabilities driven: Target has manufacturing capabilities that can be leveraged when combined with existing operations of an acquirer
- Market share growth and access to new market channels: Target expands presence in a particular market and/or provides a launching pad for entrance into a new market; target provides new channel access to reach new customers
- "Buy vs. build": Target enables acquirer to present an ROI case for acquiring assets instead of more costly greenfield investment or expansion

We mentioned private equity becoming increasingly active in our industry, and, similar to their strategic peers, successful private equity acquirers also typically develop a thesis-driven approach when evaluating potential acquisitions of chemicals and materials science companies. A fund, for example, may have conducted internal research and developed conviction that a specific market (for example, Agriculture) or business model (for example, distribution) will see outsized growth in the near/medium-term. Alternatively, a fund may have an angle to accelerate growth that other buyers do not have–examples we have seen include an engagement with a third-party operating partner with experience in a particular market, connections to new potential customers that could be introduced post-closing, and line-of-sight into complementary, near-term acquisitions, among others.

North American Chemical Deals Announced by ChemWeek



Source: ChemWeek and Grace Matthews Analysis. Transaction data is sourced from ChemWeek and narrowed down to acquisitions of companies based in North America. Not all transactions are reported, so this is a proxy for broader market trends.

Successful funds are wired to screen targets, efficiently make decisions on what they want to pursue, and allocate resources to the deals that are of interest while passing on ones where they do not have an angle. For context, in a given year, an established lower middle market PE fund with strong access to deal flow may see between 500-1,000 teasers (incoming deals that are marketed by an advisor) in addition to any privately sourced deals where the fund engages directly with the owner. In this competitive environment, we are more commonly seeing PE funds selectively and aggressively pursue the deals that are the right fit for their investment strategy while passing on the rest.

"When you couple acquisitive strategics with PE funds looking to deploy capital, you can see that buyers are competing for a limited number of assets… focusing on the right opportunities and aligning early in a potential process on whether a target is a strong fit with an acquisition strategy can help minimize risk of spending time and resources on the wrong opportunities."

When you couple acquisitive strategics with PE funds looking to deploy capital, you can see that buyers are competing for a limited number of assets, and a common refrain we hear from both strategics and funds is an underlying fear of being "blown away" in a competitive bidding process. Our guidance is to focus on and "lean in" to the opportunities where there is a strong overlap between what the target company is worth to the acquiring organization and what deal structure (purchase price, terms, and timing) may be required in order to "win." Buyers may spend hundreds, if not thousands, of hours of collective employee and third-party advisor time over the course of a deal. A deal can fall apart for matters beyond a buyer's control; however, focusing on the right opportunities and aligning early in a potential process on whether a target is a strong fit with an acquisition strategy can help minimize risk of spending time and resources on the wrong opportunities.

Opportunities for Buyers to Distinguish Themselves in a Competitive M&A Environment

Potential acquirers can also benefit from understanding the lens through which sellers may evaluate a buyer, its offer, and its overall interest. When advising business owners, we often see our clients evaluate offers via three broad metrics: economic value & legal terms; speed to & certainty of a closing; and a buyer's intangibles. A buyer can increase its chances of success by evaluating what it can offer relative to what a seller desires and then presenting an offer that maximizes the combination of these three metrics. See below for some additional detail and examples we have seen.

"A buyer can increase its chances of success by evaluating what it can offer relative to what a seller desires and then presenting an offer that maximizes the combination of value & terms, speed & certainty, and intangibles."

Value & Terms:

Value (purchase price) and feedback on certain legal terms are typically the first points upon which a broader deal framework can be negotiated. From a value perspective, successful acquirers need to offer competitive or "market-clearing" offers, and we suggest that buyers focus on valuing the target business for what can be achieved under the buyer's ownership (rather than focusing on what others may offer). From a legal terms perspective, buyers are successful when they seek to understand what is important to the seller. Does the seller want a walk-away RWI policy, for example, and can the buyer highlight experience in obtaining these without any delay? Frequent engagement with the seller and/or the seller's representatives will help buyers identify deal terms, outside of a headline purchase price, that may allow for some flexibility, and tailoring an offer to highlight that you, as a buyer, are hearing and accommodating what a seller hopes to achieve can cast the acquirer in a more favorable light.

Speed & Certainty:

A robust and appealing deal framework helps, though this may be irrelevant if a buyer needs an inordinate amount time or carries a higher perceived risk to complete the deal. We view these variables as speed (timing to reach a closing) and certainty (de-risking the deal as much as possible before a seller chooses a buyer). Buyers seeking to stand out on speed can begin by signaling their interest early, such as asking for an early call or meeting with sellers and advisors to discuss the opportunity. While this is not always possible, this request can go a long way in terms of accelerating a buyer's understanding of the business and beginning to develop a relationship with the sellers. Buyers pushing their speed to closing often craft a thoughtful diligence calendar that pushes workstreams ahead simultaneously rather than sequentially. These buyers are willing to spend resources and time on certain functional areas early on, such as engaging and spending money on third-party workstreams before other buyers, to present a faster path to getting a deal closed. Moreover, buyers that are focused on demonstrating their certainty to a closing often provide early feedback on purchase agreement terms (either a full mark-up or a key terms sheet), accept shorter windows of exclusivity or staged exclusivity arrangements that require them to keep progressing through key milestones in a timely manner, and/or consistently demonstrate that a given acquisition project is of the highest priority in their organization via daily calls and substantial resource commitment.

Intangibles:

Consider the intangibles as the softer touches in a deal. Intangibles won't typically "win" a deal by themselves, but they can position buyers for success when a seller is evaluating comparable offers (and, in some instances, may even allow a buyer to succeed without having the highest headline purchase price). Thus, the intangibles become the de facto tiebreakers in a potential transaction. Examples include:

- Senior-level engagement throughout process: A buyer that has C-level/senior management team members involved at key steps, such as being present and engaging during diligence discussions, in-person meetings, and/or plant tours, can signal serious intent. Moreover, having decision-makers in a buyer's organization build a rapport with sellers early on creates a communication channel that can be leveraged to navigate any potential deal impasse
- Buyers clearly articulating interest to sellers: Whether written in a bid letter or verbally expressed to sellers, a buyer that clearly articulates its interest and strategic plans can meaningfully enhance its perception in the eyes of a seller. This takes time and effort, and some buyers like to keep this "close to the vest." We'd consider that a mistake, especially in a competitive environment. Buyers should take the opportunity to turn this into an interactive discussion and be prepared to answer questions such as: "How do you see the two companies fitting together?" "What would you do if you were me?" Engagement like this shows preparation and respect, and these are critical to private sellers
- Demonstrating "fit" with sellers' management team: A buyer that takes the time to address questions from the seller's management team about what life may look like post-closing can not only alleviate some potential anxiety caused by the impending change in ownership but also can create internal champions in the seller organization. Moreover, a buyer may provide introductions with sellers from previous deals it has completed that can provide the seller an opportunity for a "reference check" of sorts

- Other deal arrangements: Every deal is unique, and we often see one-off items of importance to sellers. Examples include flexible post-closing employment terms, board of directors positions, consulting arrangements, car allowances, or similar perks that had been enjoyed under seller's watch and may not be necessary going forward. A buyer willing to entertain these items of emotional importance to sellers often gains a goodwill increase that outweighs the transitory economic impact

Continuing M&A Momentum into 2025

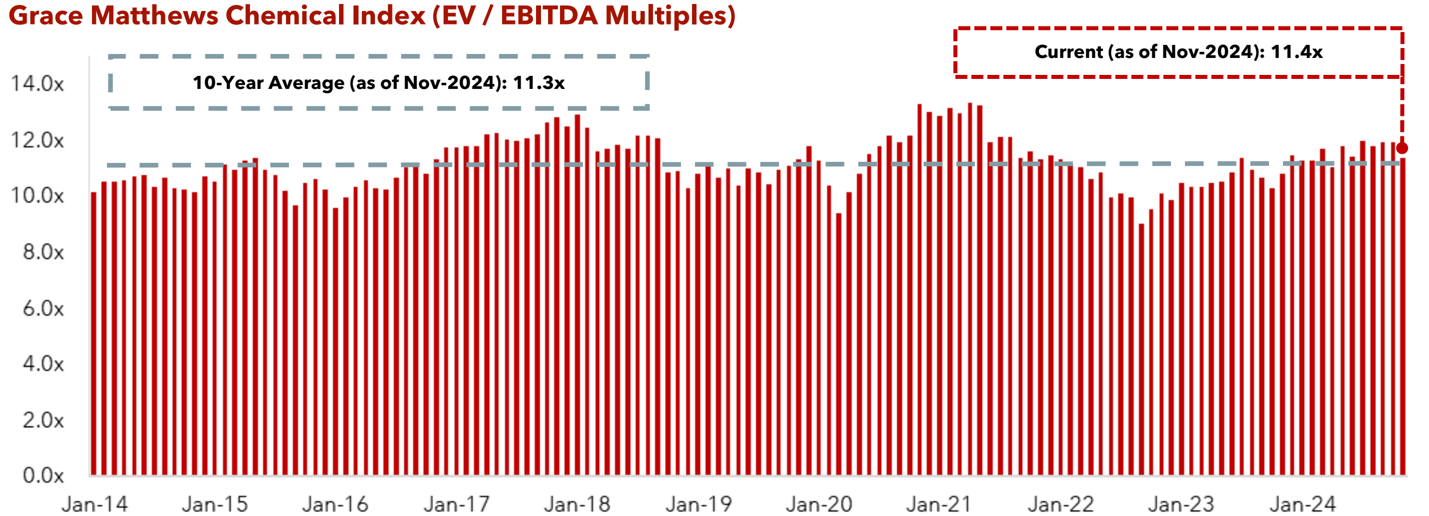
Competitive sale processes have become the norm as of late, and, as previously mentioned, we anticipate the M&A environment in the chemicals and materials science industry to continue its positive momentum into 2025. Select catalysts that we are seeing in our interactions with buyers and sellers include:

"We anticipate the M&A environment in the chemicals and materials science industry to continue its positive momentum into 2025."

- Macroeconomic tailwinds, increasing consumer confidence, and expectations of de-regulation promoting a more favorable M&A environment: Lower interest rates as the Fed continues to monitor cooling inflation, more stable demand patterns as supply chain shocks and destocking impacts from years' past are further in the rear view mirror, and continued investment in broader industrial capacity from onshoring / near-shoring efforts (both domestically and abroad) are some of the tailwinds we see for both demand patterns and M&A appetite. Moreover, consumer confidence levels in November 2024[1] reached their highest point in almost 18 months, signaling a favorable outlook for GDP growth, and market indications are suggesting a shift to less regulation with respect to M&A
- Private equity funds facing dual pressures to return capital while also deploying dry powder: As funds have waited for the right time to sell their existing portfolio companies, the amount of capital actually returned to private equity investors has dwindled, and we are hearing funds face increasing pressure to sell, particularly if they have an eye on raising a new fund in the near-term. Moreover, as previously mentioned, enormous amounts of existing capital remains ready to be deployed, which creates a unique combination of both increasing supply (PE sellers) and demand (capital from PE buyers)
- Strategics continuing to complement their underlying organic growth with M&A while shedding non-core business segments: Similar to PE funds contributing to both the supply and demand in the M&A market, we are seeing strategics aggressively pursue targets that align with their M&A strategies. We are also continuing to witness increased carve-outs, as strategics that deem business segments non-core or not a priority for investment recognize these could be more valuable to other owners

An outlook for 2025 could be a newsletter in itself, so consider the select trends and anecdotes highlighted above as those we are most frequently hearing in transactions and conversations with strategics, private equity funds, and privately held companies in our industry. Coupling these with the broad appetite to engage in M&A and the large amounts of capital ready to be deployed for deals has us optimistic that 2025 will be another busy year.

Grace Matthews Chemical Index (EV / EBITDA Multiples)



Source: Capital IQ & Grace Matthews analysis.

The Grace Matthews Chemical Index tracks the Enterprise Value / EBITDA ratios ("EV / EBITDA multiples" or "EBITDA multiples") of ~100 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.

[1] *November 2024 Consumer Confidence Index https://www.conference-board.org/topics/consumer-confidence*

Select Chemicals and Materials Science Transactions

Transaction values in $US millions

Closed Date	Acquirer / Target	Target Description	Enterprise Value (EV)	EV / Sales	EV / EBITDA
Pending	Methanex Corporation / OCI Global (Methanol Business)	Manufacturer of methanol	$2,050		
Nov-24	Qemetica / PPG Industries (Silicas Products Business)	Manufacturer of precipitated silica products	$310		
Nov-24	Shrieve Chemical (Gemspring Capital) / Connection Chemical	Distributor of industrial chemicals and fine ingredients			
Nov-24	Apogee Enterprises / UW Solutions (Heartwood Partners)	Manufacturer of high-performance coated substrates	$242		
Nov-24	Solenis / BASF (Flocculants Business)	Flocculants business for mining applications			
Nov-24	The INX Group / Coatings & Adhesives Corporation	Manufacturer of coatings, adhesives and polymers for the printing and packaging market			
Oct-24	The Riverside Company / Seatex (Cotton Creek Capital)	Provider of chemical manufacturing and technology solutions			
Oct-24	Actylis / Pharm-Rx	Supplier of specialty ingredients to the pharmaceutical, nutritional supplement, personal care, and food industries			
Sep-24	TJC / USALCO (H.I.G. Capital)	Provider of water treatment solutions for municipal and commercial customers in North America			
Sep-24	RelaDyne (AIP) / Oil Flush	Provider of specialized lubrication services and products			
Sep-24	Rochester Midland (Peak Rock Capital) / Industrial Water Technologies	Water treatment services provider and technical consulting			
Aug-24	AIP / Veolia North America (Sulfuric Acid Regeneration Business)	Provider of mission-critical environmental services and specialty sulfur-based products for diversified industries	$620	1.8x	
Aug-24	Koch Industries / Iowa Fertilizer	Producer of nitrogen fertilizer and diesel exhaust fluid	$3,600		
Jul-24	Apollo Global Management / U.S. Silica Holdings	Producer of commercial silica	$1,850	1.3x	4.7x
Jul-24	Sheboygan Paint Company / Bradley Coatings Group (United Paint)	Manufacturer of high-performance coatings used in the transportation and industrial end markets			
Jul-24	MPE Partners / LA-CO Industries	Manufacturer of industrial hand-held markers, plumbing chemicals, temperature indication tools, livestock markers, and sterilization inks			
Jul-24	Brenntag / Industrial Chemicals Corporation	Colorado-based industrial commodity chemical distributor			
Jul-24	Axalta / CoverFlexx	Manufacturer of coatings for automotive refinish and aftermarket applications	$294	3.8x	
Jun-24	Brenntag / Solventis	Distributor of glycols and solvents			
May-24	H.B. Fuller / ND Industries	Provider of specialty adhesives and fastener locking and sealing solutions	$256	3.7x	
May-24	Wynnchurch Capital / Reagent Chemical & Research	Specialty distributor of hydrochloric acid in North America			
May-24	INEOS / LyondellBasell (Ethylene Oxide & Derivatives Business)	Producer of ethylene oxide and derivatives	$700		
Apr-24	Hydrite / Precision Polymer	Manufacturer and distributor of wastewater treatment chemicals			
Apr-24	MFG Chemical (Platte River Equity) / H.P. Polymers	Independent resin and polymers manufacturer for paints and coatings			
Apr-24	Clariant / IFF (Lucas Meyer Cosmetics Business)	Ingredients provider for the cosmetics and personal care industry	$810	8.1x	16.3x

Select Recent Grace Matthews Chemicals and Materials Science Transactions

SEATEX
a portfolio company of Cotton Creek Capital, has been recapitalized by
Riverside

UNITED PAINT
has sold its Bradley Coatings Group to
Sheboygan PAINT COMPANY

LA-CO INDUSTRIES, INC.
has been recapitalized by
MPE PARTNERS

HPCRAFT POLYMERS
has been acquired by Platte River Equity's portfolio company
MFG CHEMICAL LLC BUILDING VALUABLE BONDS

SILBERLINE™ FROM SCIENCE TO SHINE
has been acquired by
ECKART a member of ALTANA

MERICHEM
has sold its Technologies & Catalyst business to
BLACKBAY ENERGY CAPITAL

TECKREZ
has been recapitalized by
HIDDEN HARBOR CAPITAL PARTNERS

Chemours™
has sold its glycolic acid business to PureTech Scientific, a portfolio company of
IRON PATH CAPITAL

dx
has been acquired by
PVS chemistry for daily life™

RUDD® RUDD COMPANY, INC
Manufacturers of Quality Coatings Since 1912
has been acquired by
GEMINI INDUSTRIES, INC

Benz ADVANCING LUBRICATION...
has been acquired by
AMSOIL®

AMERICO CHEMICAL PRODUCTS, INC
has been recapitalized by
HARBOUR GROUP®

SHERWIN WILLIAMS.
has sold its Menomonee Falls, WI-based aerosol manufacturing business to
Diamond Vogel®

stahl
has acquired the Industrial Solutions Group of
ICP

CROWN CARBON REDUCTION TECHNOLOGIES
has been acquired by
Colonial Group, Inc. Growing a Business. Building a Family.

PUREPOXY
has been acquired by Renovo Capital and its portfolio company
A.P. NONWEILER CO., INC. *It's The Finish That Counts*

KaMin PERFORMANCE MINERALS
Value from the Ground Up
has acquired the kaolin minerals business of
BASF We create chemistry

CPS PERFORMANCE MATERIALS CORP
through its subsidiary, GEO Specialty Chemicals, has sold its DMPA business to
Perstorp

STREM
has been acquired by Wind Point Partners' portfolio company
ASCENSUS™

the ingredient house
Discover the Quality within
has been acquired by
Prinova NAGASE Group

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 materials 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 platforms; leveraged transactions and recapitalizations, strategic advisory analysis, and transaction fairness opinions. Areas of expertise include:

- Adhesives, Sealants, Tapes
- Agricultural Chemicals
- Construction Chemicals & Building Products
- Contract Manufacturing & Custom Synthesis
- Distribution
- Environmental Services
- Electronic Chemicals
- Food & Beverage Ingredients, Flavors & Fragrances
- Industrial Minerals
- Inorganics, Ceramics, Catalysts
- Intermediates, Additives, Colorants
- Life Sciences
- Lubricants, Greases, Metalworking Fluids
- Nutraceuticals & Supplements
- Paints, Coatings, Inks
- Paper, Films, Packaging Materials
- Personal Care, Soaps, Cleaners
- Petrochemicals & Derivatives
- Plastics, Composites, Molded Materials
- Polymers & Resins
- Process Technology & Licensing
- Water Treatment & Oilfield Chemicals

Over the past 25 years, Grace Matthews has successfully completed more than 150 transactions. Our deep industry knowledge, M&A execution skills, and global network of industry contacts are key differentiators that drive success on engagements across the entire chemical and materials science industry.

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25 YEARS : 1999-2024

Grace Matthews, Inc. (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.

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