

Clearview

Winter 2019

Coatings, Adhesives, Sealants and Elastomers

The CASE market continues to see high levels of M&A, with private equity investors highly attracted by the strong performance of players in the industry and the attractive end market dynamics.

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Market commentary

The coatings, adhesives, sealants and elastomers (CASE) industry continues to see high levels of mergers and acquisitions (M&A) activity.

Given the fragmented nature of the sector, numerous large groups such as Arkema SA, HB Fuller Co, PPG Industries Inc, RPM International Inc, Sherwin-Williams Co and Sika AG continue to pursue bolt-on opportunities for their global operations.

Through these strategic acquisitions, they are seeking to enhance their presence in particular geographies or reinforce the product capabilities around adhesion, co-binding, dispersion, rheology, solubility resistance and surface protection.

End market applications are also a key focus for acquisitive groups as they seek to expand their offerings across a range of market applications and

sectors, including automotive, construction, consumer products, electronics, industrial equipment, industrial maintenance, infrastructure and packaging. For such groups, acquisitions can mitigate the effects of lower organic growth and innovation, differentiate their own product offerings, generate cost savings in materials sourcing, and also counteract new market entrants.

With increasing scale being the order of the day, large groups are also seeking to match the consolidation seen within their own suppliers and customers. This in turn allows them to manage their margins more effectively when negotiating sourcing arrangements with their suppliers. Acquisitions can also allow them to generate greater cross-selling opportunities with their customers.

Product developments in the sector are seeing an increasing focus on equipment and infrastructure durability in order to reduce end-product wear-and-tear, whilst the maintenance and overhaul of existing end-products still plays an important part. Other specific areas of focus for product innovation lie in anti-microbial, anti-static, fire and heat resistant, and water resistant applications.

Meanwhile, environmental factors are also an increasing driver in the sector as it becomes ever more subject to regulatory controls. Issues such as emissions management, end-user safety and reduced environmental footprints are spurring the development of biological products, as well as the use of water-borne products rather than solvent-borne ones.

M&A activity

The strong level of M&A in the CASE sector is the result of positive dynamics in the industry. The sector is growing faster than GDP reflecting the fact that these materials are increasingly replacing traditional fastening products such as nails and screws.

At the same time, the application of CASE materials is gradually becoming automated in many areas, whilst also providing the end-user with enhanced product performance.

The ongoing corporate appetite for bolt-on acquisitions is therefore driven by the fact that there are strong margin enhancement opportunities in the CASE sector, whilst the strength of corporate balance sheets means they can make multiple acquisitions in order to satisfy their demand. The end result is the increasing competition for particular acquisition targets which, in turn, is keeping valuations of businesses high.

It is noticeable that the valuations of small and medium-sized acquisition targets in the CASE sector are nearly as high as large ones. In fact, there is

considerable demand by large CASE groups for modestly-sized bolt-on acquisitions, as these targets allow them to harness new innovation and penetrate new, high-growth end markets.

These trends in M&A have created a seller's market and have also allowed potential vendors of businesses to be much more selective with regard to the potential buyers which they interact with.

The scarcity of high quality acquisition targets means that potential buyers can no longer benefit from finding uninformed vendors who might sell at a low price. The result of this is that valuation from both private equity and trade buyers can reach 8-10 times earnings before interest, tax, depreciation and amortisation (EBITDA).

The CASE sector has seen considerable large-scale M&A activity in recent years, including AkzoNobel NV spin-off its Speciality Chemicals division (Nouryon) to Carlyle in order to focus on its core CASE activities, as well as

Sherwin-Williams Co's acquisition of Valspar Corp, and Sika AG's acquisition of Parex Group SA.

Meanwhile, the bulk of the activity continues to take place in the mid-market, where serial buyers such as Arkema Group SA acquired Afinitica Technologies SL in Spain, CMP Specialty Products Inc in the US, and Lamson Ltd in the UK.

Meanwhile, GCP Applied Technologies Inc acquired RIW Ltd and Stirling Lloyd plc, both in the UK; PPG Industries Inc acquired Dexmet Corp in the US and Hemmlrath GmbH in Germany; RPM International Inc acquired Ekspan Ltd in the UK and Siamons International Inc in the US; and Sika AG acquired Belinco LLC in the US, Crevo-Hengxin Adhesive Co Ltd in China and King Packaged Co in Canada.

These transactions demonstrate the global nature of M&A activity in the CASE sector, with most acquisitions being cross-border.

Private equity appetite



Private equity (PE) investors are highly attracted to the CASE sector because of the strong financial performance of players in the industry and the attractive end market dynamics.

Companies in the sector often appeal to PE because of their close customer intimacy and the strong service component to their business models. As a result, PE view them as operating in a defensible market position where there is little threat of product displacement and where their growth cycles are predictable. Equally, these companies tend to be less capital intensive and their formulations chemistries are associated with strong levels of cash conversion.

At the same time, PE firms benefit from the ongoing corporate restructuring in the sector which sees large groups sell non-core operations. In fact, some of the mega-mergers involving groups such as Dow Inc and Dupont de

Nemours Inc have resulted in the sale or spin-off of some activities, sometimes in order to achieve regulatory approvals for mergers, or even just to divest businesses that will no longer be core to the continuing operations of an enlarged group. Equally, some groups come under pressure from their shareholders to sell poorly performing or unwanted subsidiaries in order to use the proceeds for acquisitions in higher growth areas.

As a result, PE firms regularly establish new platform investments in the CASE sector, which are then themselves often the subject to ongoing buy-and-build strategies.

Thanks to the increasing firepower within the PE market, investors can look at bringing together multiple players in the sector to create an enlarged entity, which in time will itself be an attractive acquisition target for

the large global groups.

An example of this is the US adhesives and coatings group, Innovative Chemical Products Group LLC (ICP) which is backed by the US private equity firm Audax. In 2019 alone, this group has completed bolt-on acquisitions of ASTEC Insulating Coatings Corp, IdeaPaint Inc and Sensible Life Products Ltd (Benefect), as well as certain assets of TPR2 Corp.

Meanwhile, Europe has been a hot-bed for new PE investments in the CASE sector, with French PE firm Astorg Partners acquiring IGM Resins NV in the Netherlands; Italian PE firm Equilybra Capital Partners acquiring Deko Srl in Italy; US PE firm HIG Capital acquiring Covestro AG's Polyurethanes division in Germany, and UK PE firm Silverfleet Capital acquiring Prefere Resins GmbH in Germany.

Case study

Clearwater International's German Industrials and Chemicals Team advised Heidelberger Druckmaschinen on the sale of its Hi-Tech Coatings division to Innovative Chemical Products Group's Industrial Solutions Group division.

Heidelberg is a highly innovative partner to the global printing industry for more than 160 years. Offering state-of-the-art technologies and innovative business ideas, the company provides products and services along the entire process and value chain for printing products.

The divestiture is a part of Heidelberg's initiative to focus on core activities and portfolio adjustments. With the sale, three sites and a total of around 60 employees will be transferred to ICP's ISG division. The transaction also established a strategic partnership between Heidelberg and ICP Group to ensure Heidelberg's future sales of its coating portfolio to its customers. The purchase price amounts to EUR 38.5 million.

With the team's considerable experience in the CASE sector, Clearwater International was able to identify a highly strategic purchaser for Heidelberger Druckmaschinen.

HEIDELBERG

sold

HTECH COATINGS

to

ICP

Sell-side
Undisclosed

Recent Transactions

  <p>sold</p>  <p>to</p>  <p>Sell-side Undisclosed</p>	  <p>sold to</p>  <p>Sell-side Undisclosed</p>	  <p>MBO supported by</p>  <p>Buy-side Undisclosed</p>	  <p>sold</p>  <p>to</p> <p>OM Group Inc</p> <p>Sell-side Undisclosed</p>
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