

Clearview

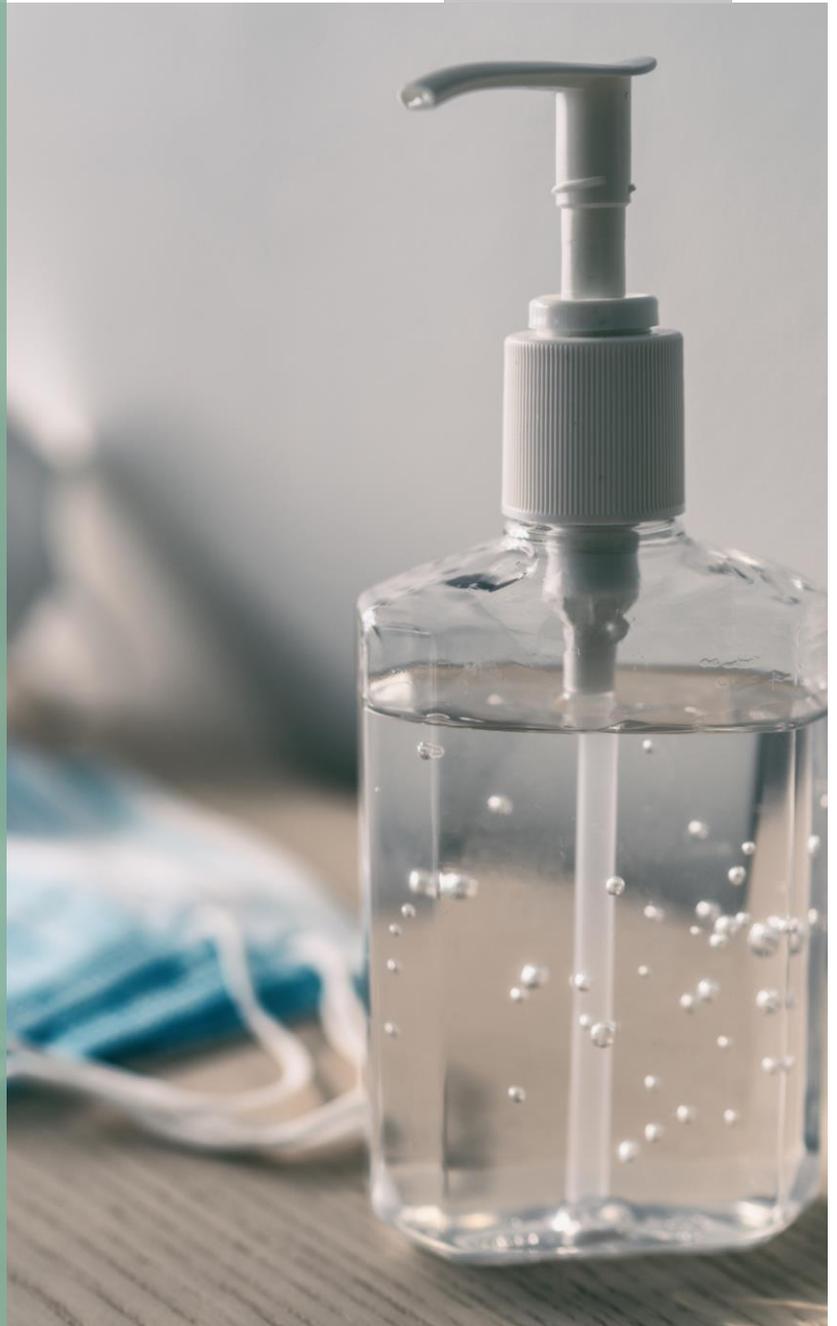
Autumn 2020

Cleaning & Hygiene Chemicals

The global pandemic has thrown the spotlight on the cleaning and hygiene industry like never before. The demand for cleaning and hygiene products is ever-increasing and private equity investors are highly attracted to the market due to its strong performance.

Inside:

- Market overview analysing the impact of COVID-19 on the sector
- Safety concerns as a result of the heightened global demand in this market
- M&A activity overview and the impacts of COVID-19





Market commentary

The global pandemic has thrown the spotlight on the cleaning and hygiene industry like never before. While in the early days of the crisis attention was naturally focused on keeping hospitals, care homes and other essential services as safe as possible, attention is now turning to offices, schools and factories and what specific measures are needed to ensure all buildings are as safe as possible.

As a recent report from Oakland Innovation¹ concludes, the pandemic may have created a “permanent paradigm shift in attitudes to hygiene whether in the home, at the office or on-the-go”. It anticipates that the current heightened consumer awareness of the importance of hygiene, inside and outside of the home, will continue after the pandemic passes and that hygiene standards will rise in places of employment, education, leisure and travel.

Huge demand

The enormous global demand for cleaning and hygiene products that we are witnessing has created its own set of problems for the industry.

As the UK Cleaning & Hygiene Suppliers Association (CHSA) says², the fragility of the just-in-time supply chain has been exposed by this huge demand given that unremitting downward pressure on prices has led to the outsourcing of manufacture to lower cost-base economies in recent decades. It says, in the case of the UK market, that the time has now come to focus on product availability and to establish manufacture in the UK and Europe.

However, supply chain issues aren't the only concern. As CHSA add, unscrupulous profiteers primarily selling online are launching new products on the market often with an exceptionally high mark-up and no guarantee that they meet industry standards.

For example, it says there has been a marked increase in imported Personal Protective Equipment (PPE) with fake or no CE marking, the certification mark that indicates conformance with European Union directives regarding health and safety or environmental protection.

1: Oakland Innovation: How will Covid-19 change consumer attitudes and behaviours in respect to hygiene and cleaning, and can we expect to see a new generation of innovations in the market?

2: <https://www.chsa.co.uk/a-new-deal-for-the-cleaning-hygiene-supply-chain/>

3: <https://www.politico.eu/article/illegal-disinfectants-on-the-rise-as-new-players-flood-the-market/>

Safety concerns

Also, as a report from Politico³ cites, under pressure from consumers and hospitals desperate for products that can kill coronavirus, EU countries have been easing laws to fast-track market access to new disinfectant products, something that normally needs lengthy authorisation.

This acceleration of the process has prompted new players in the production of disinfectants. However, while most of the intentions are good, it reports that the outcomes can be mixed. National regulators across Europe warn that there's been an increase in the number of ineffective disinfectant products, some containing hazardous substances or lacking approval, as well as more people mishandling products.

Against this backdrop, the development of effective and safe solutions to combat viruses will be critical in the months and years ahead.

As Oakland says, there is “a significant opportunity for those operating in the hygiene and cleaning categories to leverage this emerging science and technology and to draw inspiration from it for the development of the next generation of products”.

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M&A activity

Large groups in the cleaning and hygiene products sector look to make acquisitions in order to mitigate the effects of lower organic growth, generate costs savings in materials sourcing, and in order to differentiate their own product offerings and counteract new market entrants.

The continued consolidation in the sector is driven by the need for geographic expansion as consumer appetite increases globally, this is evidenced by the high number of cross-border acquisitions in this sector in recent years.

The current corporate appetite for bolt-on acquisitions is also driven by the fact that there are strong margin enhancement opportunities in the cleaning and hygiene products sector, whilst these groups have strong balance sheets and can make multiple acquisitions in order to satisfy their demand.

PE investors are highly attracted to the cleaning and hygiene products sector due to strong performance in the sector, the attractive end market dynamics and differentiated product offerings. They also appreciate the defensible market position in these companies, as well as the fact that their formulations chemistries are associated with strong levels of cash conversion.

Europe has seen many new private equity investments in the cleaning and hygiene products sector including French private equity firm Azulis Capital acquiring Love & Green SA, French private equity firm BNP Paribas Developpement acquiring Groupe Unipex SA, Belgian private equity firm Cobepa acquiring HG International BV, French private equity firm LBO France acquiring Eurotab Tableting SA and UK private equity firm Mobeus Equity Partners acquiring Star Brands Ltd.

COVID-19 influences on M&A Activity

The global drive to develop solutions to tackle viruses points towards much collaboration in the years ahead, and we expect this to be reflected in significant M&A activity as players respond to the continued heightened demand for cleaning and hygiene products amid rising health and food safety concerns.

Two major deals which closed earlier this summer highlight these trends perfectly. One deal saw Kersia Group, a global leader in biosecurity and food safety and backed by French private equity firm Ardian, acquire Holchem Laboratories, a UK-based supplier of hygiene and cleaning products and services for the food and beverage, foodservice and hospitality industries.

During the pandemic, Kersia says both companies have refocused operations towards traditional products which have been most in demand, such as disinfectant and hand-hygiene solutions, while also continuing to support the rising demand for biosecurity protocols. Kersia specifically aims to improve the performance of the agricultural and food industries by preventing the spread of animal and human diseases, often caused by contamination in the food supply chain.

Kersia acquired Holchem from Ecolab, a global leader in water, food safety and hygiene technologies and services. Earlier this year Ecolab acquired CID Lines, a global provider of livestock biosecurity and hygiene solutions whose primary business offers a range of cleaning, disinfectant and hygiene solutions for pig, poultry and dairy farms.

Ecolab says larger herd and flock sizes, increasing protein production, reduced use of antibiotics, and more stringent regulations are resulting in greater demand for livestock and poultry biosecurity and hygiene expertise and solutions that help ensure animal health and prevent the outbreak of diseases.

As the pandemic shifts personal hygiene toward a daily priority we expect cleaning and hygiene chemicals specialists to continue to perform well, and we may see early stage, dynamic businesses in the sector grow as innovative products come to the market. All of this sets the market up nicely for PE investment opportunities and continued consolidation by larger groups.



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Transactions



BLUE Equity
sold
Controlled Polymers
to
americhem
Sell-side
Undisclosed



TIBCHEMICALS
sold
BNT | chemicals
to
IBU | tec
Sell-side
Undisclosed

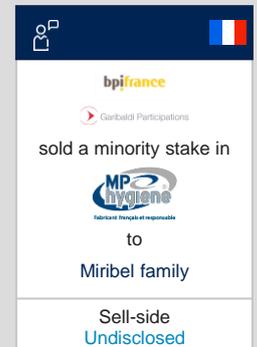


ITALMOBILIARE
INVESTMENT HOLDING
invested in

Buy-side
Undisclosed



HeidelbergCapital
sold
snom
to
vtech
Sell-side
Undisclosed



bpifrance
Carbide Participations
sold a minority stake in
MP hygiene
to
Miribel family
Sell-side
Undisclosed

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