clearview

Speciality Chemicals

Improving economic conditions, relatively cheap financing for deals and increasing competition for acquisitions are leading to high valuations in the sector

Staying competitive

The chemicals industry continues to see high levels of M&A activity with mega-mergers and repeated bolt-on acquisitions being the order of the day. Large corporates in the industry are seeking acquisitions as means to mitigate the effects of lower organic growth. They are also looking to counteract new entrants, lower rates of innovation in their own businesses and difficulties in differentiating products. Acquisitions also allow many stock market-listed groups to focus activities on areas that generate greater returns and thereby improving their own ratings.

The sector has seen strong appetite from acquisitive groups looking to use cash reserves to make acquisitions that allow them to stay competitive. They are also using this strategy to scale up in order to match the strong consolidation seen with many of their suppliers and customers. This means that, for example, they can maintain margins more effectively when arranging sourcing agreements with suppliers. On the other hand, they can also generate greater cross-selling opportunities with their customers.

Many major players in the chemicals industry have come under increasing pressure from shareholders to restructure portfolios by exiting from lower growth activities and investing the proceeds on acquisitions in higher value areas. These changes present further acquisition opportunities for other groups and private equity (PE) firms that see opportunities in the sector, including for buy and build strategies.

M&A activity

The chemicals industry has seen considerable large-scale M&A activity in recent years including blockbuster transactions such as Dow Chemical Co's €118bn acquisition of EI Dupont de Nemours & Co, Bayer AG's €54bn acquisition of Monsanto Co and China National Chemical Corp's (ChemChina) €36bn acquisition of Syngenta AG.

Overall the sector has experienced higher valuations for transactions thanks to improving economic conditions in many territories, relatively cheap financing for deals and increasing competition for acquisitions.

These valuation trends have been seen right across the industry, including for smaller and medium transactions. In fact, there is considerable demand by large chemicals groups for bolt-on acquisitions.

It is these acquisitions that allow them to harness new innovation in the sector and penetrate new, high-growth end markets. As a result, segments such as additives, crop chemicals, CASE (coatings, adhesives, sealants and elastomers), composite materials, flavours and fragrances, and pigments are particularly active.

These trends are allowing vendors of businesses to be much more selective on the potential buyers which they interact with. They are allowing them to seek out parties which are more familiar with their own activities and which are therefore more likely to pay a higher price.

Disposing of non-core activities

The increase in M&A activity and greater corporate restructuring is providing considerable opportunities for PE firms and other corporate buyers. Many of the mega-mergers have resulted in further rounds of restructuring as large groups are integrated into one another and the newly-formed groups identify non-core activities for separation or disposal. This process is already underway within DowDupont Inc with the creation of three new businesses focused on agriculture, materials science and speciality products. As a result, the group is selling businesses in order to get regulatory clearance for its merger or it is shedding subsidiaries which will not form part of the future strategies of these businesses. For example, the group recently completed the sale of seven European styrofoam manufacturing plants to the Luxembourg group Ravago SA.

The appetite from PE firms for these sorts of transactions is driven primarily by the long-term record of PE investors in generating performance improvements in the chemicals industry. They currently have considerable firepower in the funds which they have raised and have access to low-cost debt capital to support investments.

This rationale was seen most clearly in the €10bn acquisition of AkzoNobel NV's Specialty Chemicals division by the US PE firm Carlyle Group and the Singaporean sovereign wealth fund GIC. The transaction allowed AkzoNobel to separate its two divisions, focus on its core coatings and paints operations and return a substantial part of the sale proceeds to its shareholders. Meanwhile, Carlyle has extensive experience of investing in companies in the chemicals industry and will be able to focus the business on maximising returns from its own activities.

Other PE firms see non-core disposals from large corporate groups as ideal bolt-on acquisitions for existing investments. This strategy was seen when the US group Valtris Specialty Chemicals Inc's acquired the Baleycourt and Chlorotoluenes operations of UK chemicals group INEOS Ltd. The INEOS Baleycourt business in France is a manufacturer of bio-products and esters for the food, lubricants, polymer additives and renewable energy industries, whilst Ineos Chlorotoluenes in Belgium is a manufacturer of chlorinated toluenes and related derivatives for the coatings, flavours and fragrances, personal care and pharmaceutical industries. Valtris is backed by US PE firm HIG Capital which currently has seven investments in the chemicals industry.

Chemicals companies regularly change hands between PE firms as was seen with the US PE firm Strategic Value Partners acquiring Vita Group, Ltd, a manufacturer of cellular foams and industrial polymers. The transaction provided an exit for US PE firm TPG Capital.

French PE firm Ardian acquired Les Derives Resiniques Et Terpeniques SA, a French manufacturer of gum rosin and turpentine extracted from pine resin. The business was previously backed by Tikehau Capital Partners, the French PE firm, which also reinvested in the business as part of this transaction.

The same rationale was seen in the acquisition of Benvic SA, the French manufacturer of PVC compounds with operations in Belgium, France, Germany, Italy and Spain, by the Italian PE firm Investindustrial. This transaction provided an exit for US PE firm OpenGate Capital. Elsewhere, pan-European PE firm Astorg acquired IGM Resins NV, a Dutch manufacturer of UV curable materials such as acrylates and photoinitiators, as well as additives for the UV coatings and inks market. The transaction provided an exit for US PE firm Arsenal Capital Partners.

Clearwater International's Chemicals team in Spain recently advised the Spanish PE firm Corpfin Capital on the acquisition of an undisclosed majority stake in Group Barna SA, a Spanish developer and manufacturer of hydrolysed proteins of fishmeal and fish oil.

The transaction also included the company's purchase of a fish protein hydrolysate plant in Andalusia. As a result, Corpfin Capital will be able to promote the expansion plans of Barna including an additional plant in West Africa.

Recent transactions

CORPFIN CAPITAL

Private equity firm

Clearwater International advised Corpfin Capital on its acquisition of a majority stake in Grupo Barna, a developer and manufacturer of hydrolysed proteins of fishmeal and fish oil

TIB CHEMICALS

International chemical company

Clearwater International advised TIB Chemicals on the sale of its subsidiary BNT Chemicals to the publicly listed IBU-tec advanced materials

PROBELTE BIO

Producer of natural extracts and biological pharmaceutical products

Clearwater International advised Grupo Probelte on the sale of Probelte Biotech to Euromed

FRUTAROM

Global leader in the flavours and ingredients market

Clearwater International advised Frutarom on the acquisition of Spain-based Nutrafur, a manufacturer and developer of speciality natural plant extracts

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