Global Chemicals Outlook: Strong Momentum Continues

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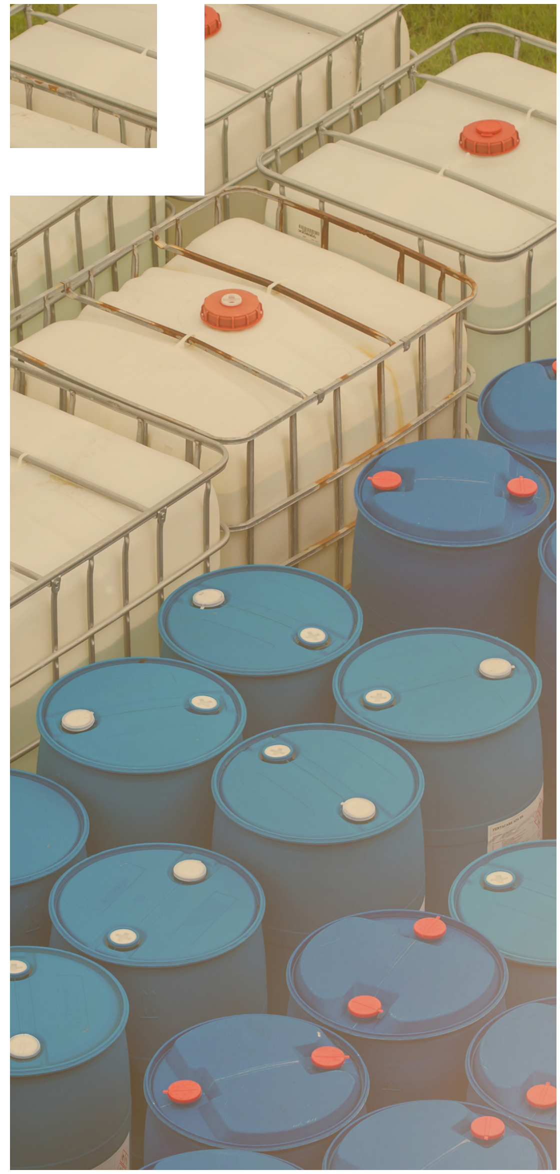

How is 2019 shaping up for Chemicals M&A?

There continues to be strong momentum in the chemicals sector, with levels of interest consistent across investor populations. A number of more general PE funds are entering the specialty chemicals space, particularly as they consider the sector's ability to weather potential market volatility. Certain chemicals tend to display less cyclicality. The amount of debt available is also enabling a competitive position among PE firms in auctions that might otherwise see a strategic prevail.

Speaking of strategics – there have been a fair amount of large transactions occurring amidst a period of consolidation. Many companies are going through their portfolios, evaluating performance and strategic fit and selling non-core assets – which creates even more opportunity for private equity.

We're seeing specialty carve outs achieve higher multiples than commodity type carve-outs, as PE firms are more focused on the specialty side of the industry.

On the buy-side, a number of investors are looking for bolt-on acquisitions. The sweet spot tends to be $25m-$250m in enterprise value. There is significant acquisition appetite as buyers look for growth, margin, new technologies and access to new customers and markets.

Are any subsectors performing particularly well?

There are a number of subsectors that are faring well, particularly adhesives, sustainability, ingredients and flavors & fragrances. If you consider things that fare well regardless of economic conditions like food and beverage or healthcare, you start to recognize why chemicals continues to thrive. Those less cyclical businesses use chemicals across the entire chain, not just the products. An example of high interest in the ingredients sub-sector is Eurazeo's acquisition of Iberchem in Spain. Eurazeo is reported to have paid close to 16x EV/EBITDA for Iberchem, a global leader in flavours and fragrances specially in emerging markets.

Chemicals go across all sectors. We often partner with our other industry colleagues to make sure we are delivering the right advice and outcome for our clients. Chemicals plays a pivotal role in everything in our every day lives – they help cars run more efficiently, make planes lighter, ensure food is healthier, deliver pharmaceuticals with greater efficacy and more.

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What is your perspective on the debt markets – are you seeing signs of concern?

Acquisition multiples are one to two turns ahead of where they were a couple years ago. I personally think this is driven by the strong M&A and debt markets. PE firms have ~$1 trillion of dry powder for equity investments. Assuming a third to a half of the purchase price is in equity, that means there are $2-3 trillion of acquisitions that will be made in the next few years. In addition, the debt markets, driven by private debt funds and BDCs, are providing PE firms the necessary leverage to be competitive in processes.

Investors previously would submit a letter of intent and begin their financing process after being granted exclusivity. Lately, PE firms are engaging lenders earlier in the process to differentiate themselves from other bidders and to provide the sellers more certainty of close. In fact, we have seen a few letters from PE firms offering break-up fees if they can't secure the debt in less than 30 days. At these elevated purchase multiples, I would expect this type of differentiation to continue.

How is what you're seeing translating globally?

In the UK and Europe, Brexit has people trying to figure out how severing from the EU will impact deal activity. In China, new complexities are arising around pollution and an effort to regulate and control it, slowing incremental investment there slightly. Moreover, most large U.S. chemical companies are already well invested in China and therefore are seeking to diversify. India and Brazil therefore remain interesting, but people are still figuring out how to play in these growth markets, especially with geopolitical uncertainty.

Ultimately, foreign and U.S. strategics are finding the U.S. to be most attractive market for new investment – even if it is a little more expensive. In fact, many strategics that historically looked at Europe and Asia for growth are now eyeing the U.S. with more enthusiasm given the recent corporate tax law changes, relatively strong economic growth and geopolitical stability. Having said this, Europe remains important as there is a sense of moderate growth coming back to mainland Europe and Europe also remains the gateway to faster growing Eastern Europe.

Chris is head of Lincoln's chemicals sector team and the firm's Los Angeles office. He has over 20 years of mergers and acquisitions (M&A) advisory experience across a variety of industries. His transaction experience includes buy-side and sell-side M&A, cross-border M&A, corporate carve-outs, leveraged buyouts, fairness opinions, and debt and equity capital raises. Chris supports clients through a deep understanding of the business forces driving M&A, including industry consolidation, the need for liquidity and competitive dynamics.

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Interested in learning more about Lincoln's chemicals expertise? Visit www.lincolninternational.com/whoweserve/chemicals.